Walgreens' Rx and cosmetics sales on rise

In FY 1986, Walgreens' sales mix totals broke out this way: 22% of all sales were generated by the pharmacy, up seven percentage points since 1981.

Another 13% of sales came from OTC drugs, while 12% came from cosmetics. Some 31% came from Walgreens' expanded line of general merchandise products, while 5% came from tobacco, 14% from liquor and beverages and 3% from food services.

In the past five years, gm, tobacco, liquor and food service sales have been trending down as pharmacy and cosmetic sales have been growing.

Walgreens intends to phase food service fountains out of its stores over the next four years, and pharmacy is expected to grow to perhaps the 25%-27% total sales level.

10% generics

In pharmacy, generics, according to Wall Street analyst Bob Roth, now account for about 10% of all Walgreens prescription sales, compared with just 5% five years ago.

Roth estimates that Walgreens' margins on generics are about 50%, compared with mid-30% margins on branded pharmaceuticals.

Roth says that currently, some 20% of Walgreens' new scripts are prescribed generically, leading him to conclude that in five more years, generics will represent about 20% of total pharmacy revenues.

That mix shift, says Roth, should add about one more percentage point to pharmacy gross margins. However, some of that gain could be offset by increases in Walgreens' third-party script business. More than 20% of Walgreens' scripts right now are dispensed through third-party programs, and that number is expected to grow.

Walgreens emphasizes an everyday low price policy with shelf signage, which also plays up a private label program that is one of the most aggressive in the industry.

However, Walgreens is also expanding its mix of higher gross margin import items, which now account for about 5%-plus of sales. In addition, sales of the higher margin Walgreens private label products are growing. Five years ago, private label products accounted for 4%-5% of total store sales. Today they account for 7%-8% of total sales.

Roth thinks that private label products, with margins of 50% and better, will rise to 10% of total sales over the next couple of years.

Mini combos

Today also, about one-third of all Walgreens stores are laid out as mini combination convenience food and drug stores. These stores have expanded convenience food departments of between 800 and 1,000 sq. ft. and carry 500-600 food and beverage sku's.

Sources say these stores have performed well, and Roth is estimating that some 40%-50% of all future Walgreens will be of the slightly larger 13,800-sq.-ft. mini-combo format. The ROI in these stores, sources say, "is superior to the ROI in the traditional Walgreens stores."

Walgreens also has 41 24-hour drug stores, and sources say these stores are performing well and will be expanded.

About 25% of Walgreens' total stores are freestanding. These, too, are turning in above average sales productivity and profit margins, sources say, and Walgreens will open more like them in the future.

Walgreens also operates five Home Medical Center home health/convalescent aids stores. Wall Street sources say this experimental division has been turning in "steady operations growth."

These stores typically depend on referral business from local doctors and hospitals as well as sales derived from catalogs placed near the pharmacies in neighboring Walgreens drug stores.

According to sources, the home health care centers lose money their first year, become slightly profitable their second year and generate above average profit margins in their third and subsequent years.

Double-digit sales, earnings growth seen through '90

Continued from page 28

tively virgin chain market of the Northeast. Walgreens management has said that potentially, they hope to build at least another 150 stores in that market over the next five years.

Medi Mart stores are being remodeled and are being given the interim name of Walgreens-Medi Mart.

Analysts are also saying that the Medi Mart acquisition may dilute earnings somewhat in fiscal 1987, but that they should begin making a positive contribution by FY 1988.

Improvements should come from the integration of the Medi Mart stores into Walgreens superior operations programs, such as the warehouse-inventory program and the intercom pharmacy computer program, as well from the merchandising remodels. As Walgreens adds new stores and clusters in the market, of course, there will also be more savings from advertising efficiencies.

Walgreens is not repeating the mistake it made in the late 1960's of neglecting older existing stores. The chain has an extensive remodeling program, and by year-end 1986, more than two-thirds of the chain's stores will either have opened or undergone a major remodel within the last five years.

Merchandising strong

Most sources also say Walgreens' merchandising division is just as strong as its operational divisions. Unlike its rival, CVS, which is always praised for its operational strengths but sometimes slighted for its merchandising blandness, Walgreens is considered an excellent merchant. Roth points out that such key departments as pharmacy, photography, cosmetics, liquor, stationery and candy produce average sales per square foot of approximately $320, or about 75% above the drug chain industry average.

On the operational side, Walgreens merchandise in-stock ratio is estimated at approximately 95%, while the company has an order-delivery turnaround time of only two to three days for 97% of its company stores, compared with a turnaround time of five days for the average drug chain. About 80% of the merchandise carried in a typical Walgreens store comes through its six distribution centers.

At Merrill Lynch, Roth says that Walgreens has reduced its distribution expenses by approximately 30% over the last five years.

The six-facility warehouse network is now fully automated, but management has told analysts that they can anticipate further improvements in inventory turnover under the company's two-year Distribution Resources Planning Program. Like CVS, Walgreens can split-case and service its stores with small size deliveries, including singles if necessary.

DC information applied

Walgreens buyers, assistant buyers and merchandisers also use the information available from the warehouse to plan their merchandising and promotional allocations.

Because of Walgreens' sophisticated information systems, buyers in the chain can measure the ROI productivity of each sku carried in the warehouse. Buyers also have information on each sku carried in 22 "panel stores" that track product movement information through the front end.

Walgreens' geographically dispersed panel stores were set up in 1975, and they track and maintain electronically generated data on every sku in stock. They monitor sales and gross margin trends and are used to test new products.

Walgreens has told Wall Street analysts that by 1990 it hopes to have similar integrated point-of-sale cash registers in all of its stores. The company will begin testing POS in 10 stores in Fort Wayne, Ind., in fiscal 1987 and will expand into several hundred stores in fiscal 1988.

Currently, all 180 departments in the Walgreens chain are replanogrammed each year on the basis of each sku's ROI ranking.

Walgreens market universe

State	Stores at end of FY '85	% of store base	Next 5 yr. store opening potential
Ill.	226	20.6%	100
Texas	169	15.4	30
Fla.	159	14.5	150
Wis.	84	7.7	20
Ariz.	53	4.8	40
Calif.	46	4.2	30
Tenn.	45	4.1	20
Colo.	37	3.4	10
Mo.	35	3.2	30
Ind.*	27	2.5	10
Ky.	27	2.5	no est.
La.	25	2.3	no est.
Iowa	25	2.3	no est.
Minn.	25	2.3	no est.
Neb.	23	2.1	no est.
N.M.	19	1.7	no est.
Puerto Rico	19	1.7	no est.
Ohio	15	1.4	no est.
Ark.	6	0.5	no est.
Mich.	6	0.5	no est.
N.Y.	6**	0.5	20
Kan.	5	0.5	no est.
Miss.	4	0.4	no est.
Ala.	3	0.3	no est.
Okla.	2	0.2	no est.
Conn.	1**	0.1	20
N.J.	1**	0.1	60
N.D.	1	0.1	no est.
S.D.	1	0.1	no est.
Mass.	0**	0.0	50
N.H.	0**	0.0	no est.

*In fiscal '86, Walgreens doubled its Indiana base with acquisition of 26-unit Ribordy chain.

**In fiscal 1986, Walgreens picked up the following via its acquisition of Medi Mart: 30 Mass. stores, 17 Conn. stores, 14 N.J. stores, 2 N.H. stores, and 1 additional N.Y. store.

Source: Merrill Lynch

Revco firms grip in East and Midwest areas

Revco uses up-front promotional tables to display high-margin, high-impulse merchandise like candy.

TWINSBURG, Ohio — Revco acted to strengthen its grip in its Eastern and Midwestern trading areas, as management entered the last lap toward completing a proposed leveraged buyout.

As a management-investor group struggled to lock up its $1.25 billion buyout by the end of 1986 in order to retain advantages under the old tax law, it moved quickly to restaff, restructure field operations and remerchandise stores.

Revco named only the three top manager investors: Sidney Dworkin, chairman and ceo; William Edwards, president and coo; and cfo R. Carroll Hudson. It said about 12 others in management will participate.

Locations of Get It For Less deep discount units

Memphis, Tenn.	1
Minneapolis, Minn.	1
Tulsa, Okla.	1
Canton, Ohio	1

Source: Revco

Meantime, top operations and merchandising management underwent a sweeping change in a series of appointments and a resignation since the buyout was announced in March.

In merchandising, Revco is betting on the combination of strong pharmacy sales with improvements to the front-end under Edwards' direction.

Pharmacy key

Not surprisingly, pharmacy remains the key store. Pharmacy sales totaled 31.1% of total drug store sales in 1986, up from 30.5% in the previous year. Like-store prescription sales rose 13.2% compared with 11.1% gain in the 1985 fiscal year. The number of prescriptions filled increased 9.8% in 1986 vs. 3.7% the year earlier. First-quarter 1987 Rx sales volume was up 15.3%, and 12.5% on a same-store basis.

The front-end strategy is to capitalize on this business by fine-tuning merchandise assortment. Revco also unveiled retrofitted stores, in which key departments were reformatted.

Greeting cards and cosmetics figured prominently in the retrofit. Cosmetics departments in some stores were moved from the right wall to the left wall, where entering customers are immediately exposed to them. An expanded greeting cards section with lighted fixtures was set across the aisle from cosmetics, by the walk-in. They had been at the rear. Speed table merchandise was cut back.

Locations of Odd Lot off-price retail stores

Region	No. of stores
Florida	13
Maryland	5
Massachusetts	5
Michigan	26
New Jersey	20
New York	56
Ohio	6
Pennsylvania	10
Connecticut	13
Total:	156

Source: Revco

The chain also pared more than 1,000 OTC and H&BA sku's in some stores. Revco also experimented with stepped-up tabloid promotions to underline its everyday discount image.

Honing productivity

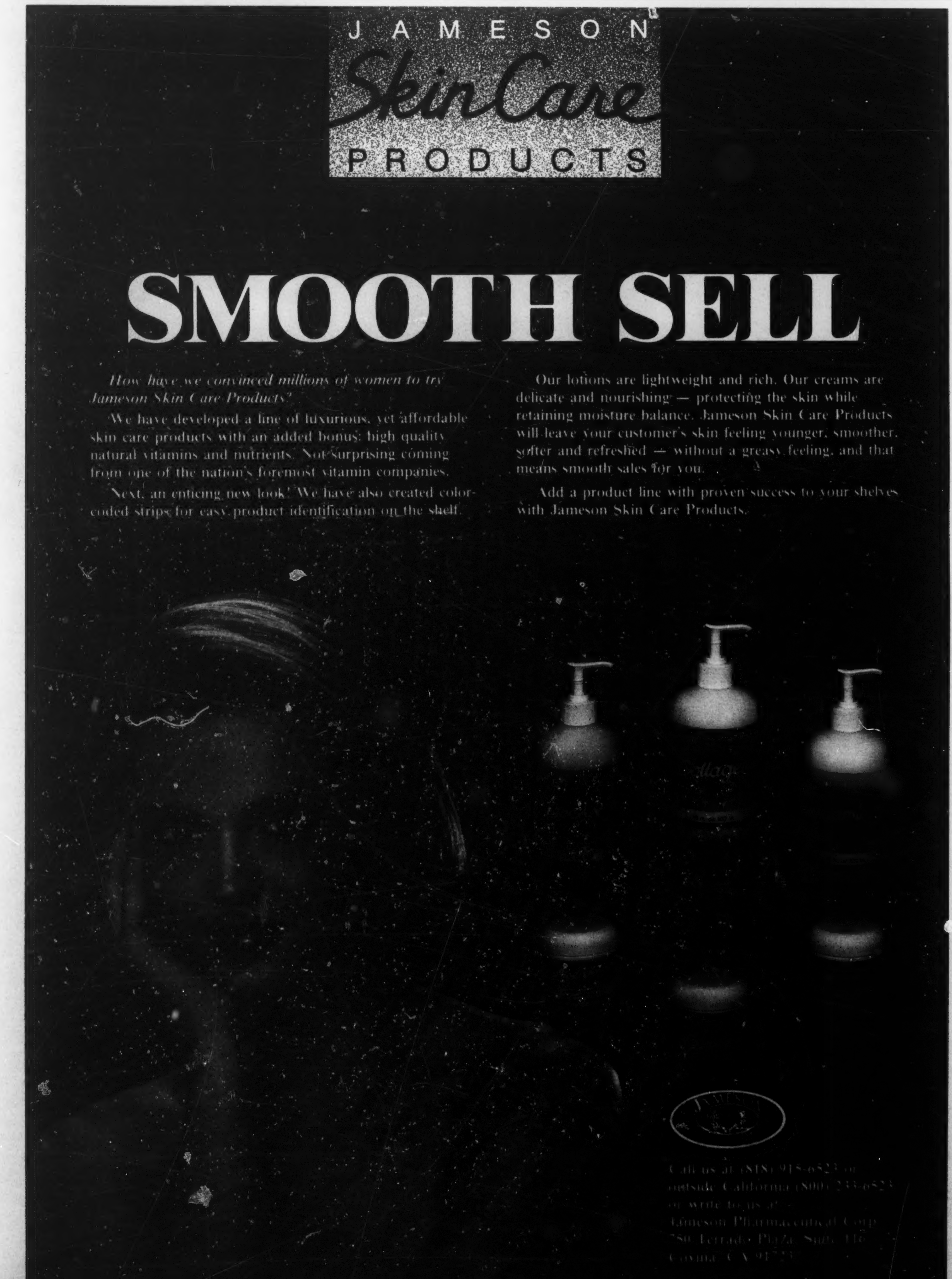
The management restructuring and remerchandising were anticipated by industry observers and Wall Street analysts, who said that improving productivity would be a first priority for the chain as it moves toward private control.

The chain will have to improve return on assets rather than plan extensive new store growth, said analysts, who expect Revco to close underperforming stores and withdraw from marginal markets.

They also said Revco will turn to selling its nonretailing subsidiaries in order to reduce LBO debt. In November, the chain sold Private Formula-

Continued on page 31

Rx issues revealed in *Cohen's Capsules*



How have we convinced millions of women to try Jameson Skin Care Products?

We have developed a line of luxurious, yet affordable skin care products with an added bonus: high quality natural vitamins and nutrients. Not surprising coming from one of the nation's foremost vitamin companies.

Next, an enticing new look! We have also created color-coded strips for easy product identification on the shelf.

Our lotions are lightweight and rich. Our creams are delicate and nourishing — protecting the skin while retaining moisture balance. Jameson Skin Care Products will leave your customer's skin feeling younger, smoother, softer and refreshed — without a greasy feeling, and that means smooth sales for you.

Add a product line with proven success to your shelves with Jameson Skin Care Products.

Call us at (818) 915-6523 or
outside California (800) 233-6523
or write to us at:
Jameson Pharmaceutical Corp.
750 Terrado Plaza, Suite 116
Covina, CA 91723

Revco store growth trends

	Number of units at fiscal year's start	Net store gain at year's end	Gross retail footage at year's end (thousands of sq. ft.)	% gain
1982	1,514	79	12,227	7%
1983	1,593	68	12,849	5
1984	1,661	117	13,909	8
1985	1,778	120	15,148	9
1986	1,898	133	16,694	10

Source: Revco annual reports

Sales and profit trends for Revco Drug Stores

(Sales and earnings in millions)

	Revco sales	Operating profit	Net earnings
1980	$1,092.8	$ 73.0	$38.9
1981	1,310.4	85.3	45.1
1982	1,588.6	97.5	49.0
1983	1,839.0	129.5	68.0
1984	2,227.5	177.6	93.4
1985	2,395.6	81.1	38.9
1986*	2,743.2	125.3	56.9

Source: Revco annual reports
*For fiscal year ended May 31, 1986

Revco highlights

1980: Revco tops $1 billion in sales.

1981: Revco acquires the 154-store Skillern Drug chain in Texas from Zale.

1983: Sidney Dworkin, president and ceo, becomes chairman also upon the death of Lee C. Howley.

1984: The F.D.A. recalls the E-Ferol vitamin supplement made by Revco's Carter-Glogau Laboratories subsidiary after it is linked to infant deaths.
Revco buys the Odd Lot Trading Co., an off-price retailer, after a two-year joint venture.
The chain is named in the first of what will be a series of lawsuits by parents of infants who were given E-Ferol. Insurance covers Revco's exposure.
Odd Lot executives Bernard Marden and Isaac Perlmutter, major Revco shareholders, threaten a takeover.

1985: Revco buys out Marden and Perlmutter and fires them as Odd Lot's administrators.
Revco opens its 2,000th store.
William Edwards, former president of F&M Distributors, is named president and coo.

1986: Revco management led by Dworkin announces a leveraged buyout proposal of $33 cash and $3 securities per share.
The chain reports year-end earnings up 62%, reversing a 1985 earnings slide.
The Board of Directors approves a sweetened buyout offer from the manager-investor group of $38 per share.
The buyout group details financing for the $1.25 billion purchase, as it aims for a shareholder vote on the buyout before year's end.

Revco earnings rebound

Continued from page 30

tions, a subsidiary that makes private label OTC products, for an estimated $16 million. The sale followed the spinoff of its General Computer Co. earlier in the year.

Analysts said that the management-investor team is under strong pressure to complete the buyout by year's end, when the new tax law will eliminate benefits from capital gains and abolish the General Utilities Doctrine. That will curtail income stemming from depreciation on assets that acquiring companies write up to reflect market value.

The two companies formed to complete the buyout—Anac Merger and Anac Holdings—revealed proposed financing, as the buyout group sought a vote by Revco shareholders on their $38.50 per share cash offer by December.

The group said in a registration statement to the S.E.C. that financing will include the sale of notes, common stock and stock puts by the two companies, as well as from bank financing.

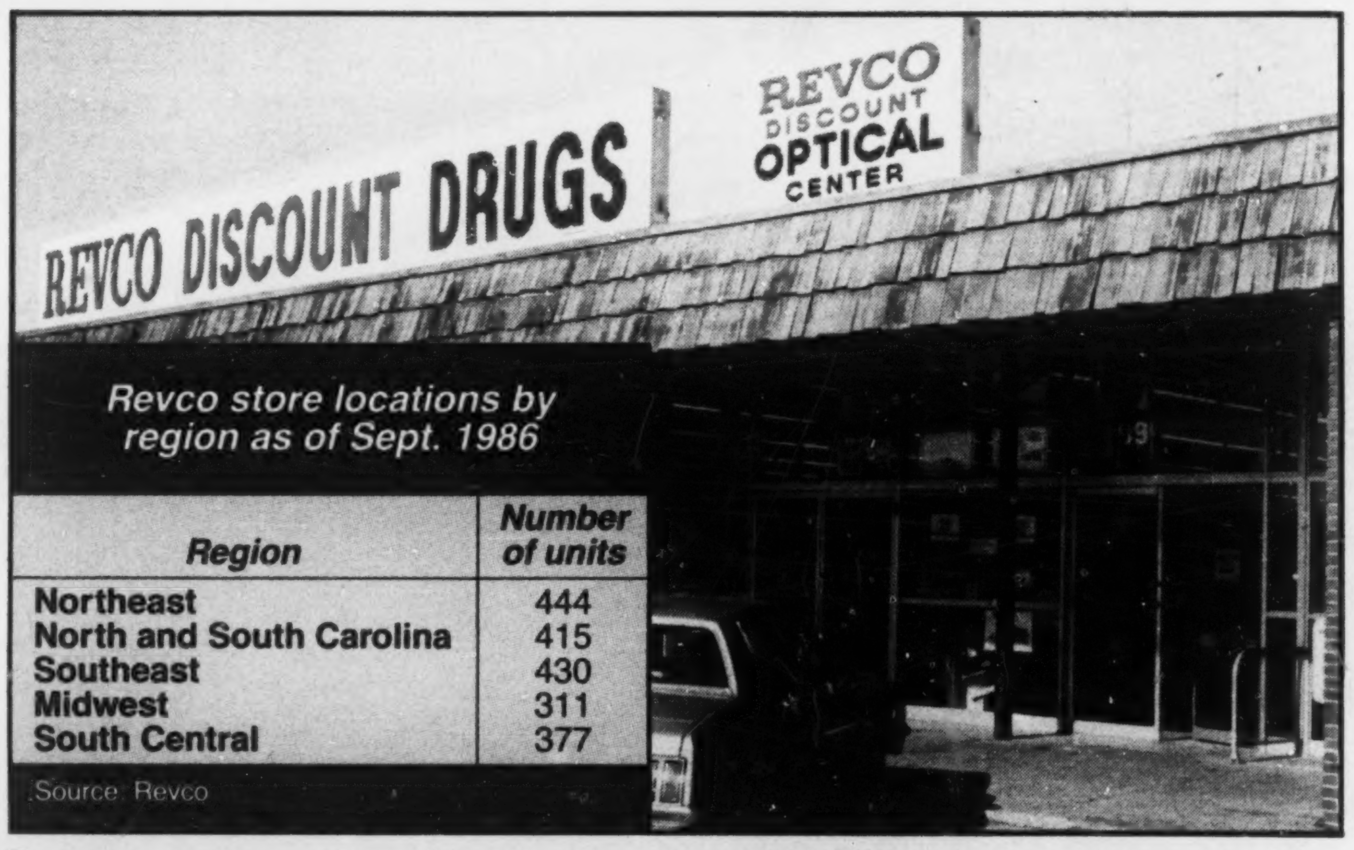
Revco's earnings in the fiscal year ended in May had rebounded strongly from the previous year, as the chain recovered from an unsuccessful price-slashing program and improved Odd Lot revenues through a remerchandising program.

Year-end figures

The year ended with sales up 14% at $2.7 billion, compared with 1985's $2.4 billion. More significantly, operating earnings rebounded from a low of $81 million, the lowest since 1980, to $125 million. Net earnings were $56.9 million, or $1.72 a share, compared to $38.9 million, or $1.06 per share.

Although prescription sales continued their strong growth in the first quarter FY '87, ended Aug. 23, net earnings fell 31.2% from the comparable quarter in FY '86, at $6.4 million compared to $9.3 million. Sales jumped 7% to $627.9 million from $585.5 million.

Revco attributed the drop to softer nonpharmacy sales, higher interest costs and less income from nonretail operations.

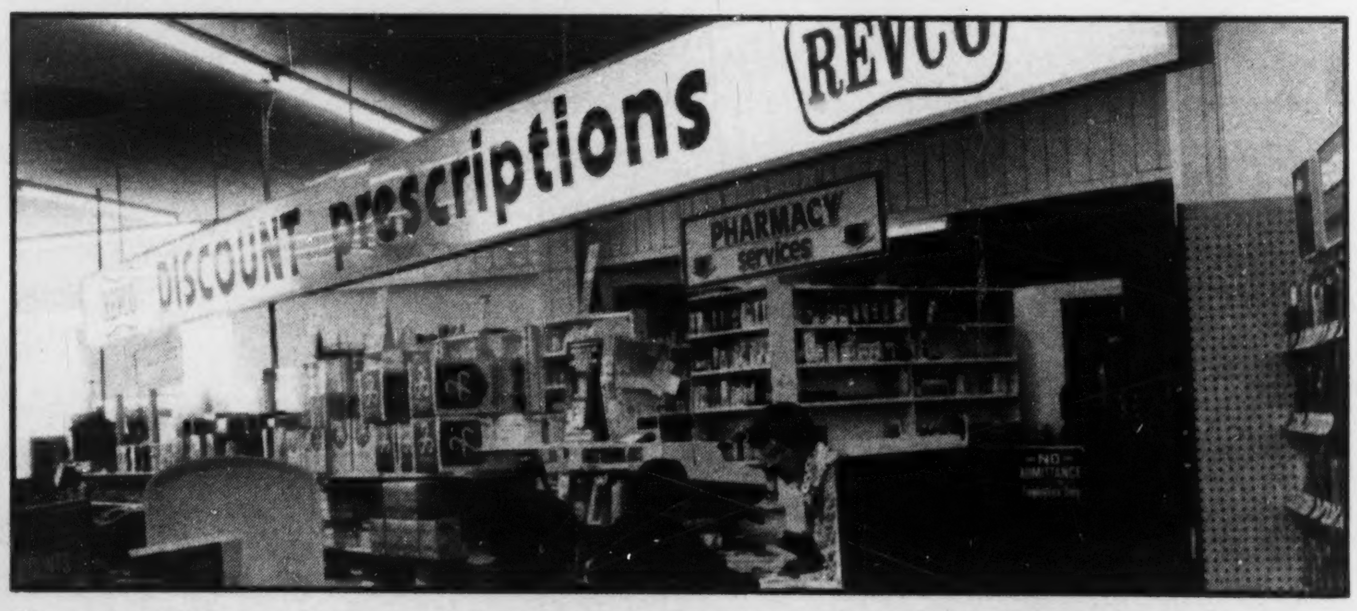


Revco store locations by region as of Sept. 1986

Region	Number of units
Northeast	444
North and South Carolina	415
Southeast	430
Midwest	311
South Central	377

Source: Revco

Revco management is seeking to wrap up a $1.25 billion leveraged buyout of the chain, which has more stores than any other in the industry.



Revco's pharmacy department accounted for 31% of 1986 sales.

Revco return on average stockholders' equity

1981	1982	1983	1984	1985	1986
19.46%	18.35%	20.64%	22.75%	8.6%	13.4%*

*For fiscal year ended May 31, 1986
Source: Revco reports

While Revco LBO unfolds, management restaffs

TWINSBURG, Ohio — A restaffing of top management in merchandising and operations and a revamping of its field network were undertaken as Revco's leveraged buyout unfolded.

A. Richard Butler, a former F&M Distributors' officer, was named senior vp-store operations. Albert Sebok, formerly in that post, was moved to a newly created position of vp-professional services, reflecting the company's goal to protect the pharmacy segment.

Purchasing responsibility was divided between two new divisional merchandise director posts, with Ellis Jones and Philip Carfagno named to the jobs, reporting to vp-merchandising Neil Roth. Roth then left in October. Sources said that John Crowley, who had been named in March to head up Revco's lackluster Odd Lot off-price store subsidiary, had assumed merchandising responsibility for the conventional stores. Crowley, 59, was a former merchandiser at W. T. Grant, where Edwards also had worked before moving to F&M.

Also, Robert Gerdony was hired as senior merchandise director for seasonal and import merchandise.

The chain announced completion of a major restructure of its field network in September, which Edwards said would allow it to operate with more sensitivity to markets.

The country is divided into five regional zones, replacing a map that had vaguely bisected the nation into two divisions, north and south. Revco hired two retailers from outside to fill two of the five new regional manager posts, with the remaining three filled internally.

By creating 64 districts within the regions, compared with 105 districts in the old system, the chain was able to eliminate management positions and tighten the chain of command from headquarters to store level. The district boundaries delineate markets based on factors such as similarity of store merchandise and advertising zones.

SPECIAL REPORT: BILLION $ CLUB

Business from Jewel-Osco combination stores such as this Rosemont, Ill., unit allows American Stores to command 25% of the Chicago drug market.

The front-of-store Christmas wrap display in a Jewel-Osco combo greets entering shoppers and is visible from the parking lot.

American splits drug, food in restructure

SALT LAKE CITY — American Stores has begun to integrate its geographically far-flung retail network, after years of pursuing one of the most aggressive growth-by-acquisition strategies in the food and drug trades.

Its latest announced plan to decentralize into three divisions should create a powerful national drug chain under the Osco banner.

The $14 billion conglomerate is at last completing the giant task of assimilating the Jewel Co.'s food and drug operations it acquired in June 1984. In 1987, its main priority will be to separate its food and drug operations, while decentralizing management of both. The drug division will include Osco, Sav-on and Skaggs.

Drug division

Industry observers predict that American Stores will create one of the strongest, most efficiently run drug chains in the country as the decentralization is implemented. The decentralization will give a stronger identity to drug operations—made up of 659 stores in 39 states—and allow greater flexibility and closer regional control in management.

Under president Richard George and chairman Scott Burgeson, the drug division will continue to integrate the company's separate drug chains under the Osco name.

Skaggs Co. division

Drug merchandising efforts will be advanced further through the Skaggs Alpha Beta combination stores, which will be major growth vehicles. The Skaggs Alpha Beta units and the Buttrey stores, which total 156 units between them, covering 14 states, are part of the Skaggs Co., the second of the three divisions being formed. Alpha Beta Supermarkets (244) are also part of Skaggs.

This group also includes a potential new operation: Florida Skaggs Inc. Analysts said that this has been formed to investigate expansion of food operations into Florida.

Third division

The third division is the American Super Stores division, which includes 299 Acme Stores, 218 Jewel Stores and 45 Star markets.

The restructuring, which the company said will begin in February, will have the net result of boosting earnings and stock value over the long term, said John Kosecoff, an analyst with First Manhattan, a New York brokerage firm.

"I think they are doing some exciting things. Management believes that the restructuring will allow the inherent value of these operations to emerge," Kosecoff observed.

The decentralization, which analysts said is just beginning to evolve, will include closing down its Salt Lake City corporate headquarters. Functions such as real estate, buying, advertising and MIS will be splintered out to each of the three divisions operating out of existing corporate offices throughout the country.

Kosecoff said the decentralization has been in planning for some time as a long-term strategy for earnings growth, and was not a specific response to the current takeover climate. Other analysts, though, speculated that the rash of recent takeover moves, including the recent buyout of Safeway Stores, hastened the announcement, as occurred when Kroger took its first steps to divest its drug store operations.

Highlight drug business

The splitup of food and drug operations was also seen as a method of focusing attention on the drug business in order to enhance the stock price, since drug operations have recently commanded higher multiples than grocery chains. "They want to show the world, and Wall Street specifically, how much drug business they do," noted one analyst, who said that American Stores will now begin reporting drug store performance separately.

Analysts said American Stores will also likely spin off a portion of the drug division to shareholders, which would further highlight the business.

American Stores stock on the New York Stock Exchange has traded recently below the market average and at a discount to other retail companies.

"The stock is clearly being penalized relative to the market," said Kosecoff.

Analysts said the depressed stock price is a result of American Stores lagging second-quarter performance, a downtrend they expect to be repeated in the third quarter. Also, they said investors are concerned about the effectiveness of the Jewel integration into the company, high interest expenses, and the costs of the restructuring operations.

The company pinned its lower second-quarter results—with earnings per share at 85¢ compared with $1.12 in 1985—to lagging performance in economically troubled regions of the Midwest, Southwest and the Mountain states. Also, earnings were affected by deflation in food prices and competi-

Continued on page 35

American Stores highlights

1979: The Skaggs Co. buys the Philadelphia-based American Stores.

1984: American Stores buys Jewel, Sav-on and Osco for $8 million.
The company sells off the 134-unit Rea and Derick drug chain.

1985: Richard George is named to head up the drug division as president.
Thomas King is named president and coo of American Stores, effective February 1986.
American reveals plans to centralize its distribution system around four warehouses in Utah, California and Illinois.

1986: Industry observers predict a rollout of combination stores in Florida, after chairman Sam Skaggs announces the company will reenter the Florida market in the near future.
American announces plans to decentralize operations by creating three divisions. One division will be Osco Drugs, made up of all of American's drug stores integrated under the Osco banner, with Dick George as president.

Major markets of American Stores' Osco, Sav-on and Skaggs Alpha Beta stores

		Market share
Denver	Osco	27.6%
Chicago	Osco	25.1
Boston	Osco	16.6
Los Angeles	Sav-on	23.2
Dallas	Skaggs Alpha Beta	17.5
Salt Lake City	Skaggs Alpha Beta	27.5
	Osco	22.2
Oklahoma City	Skaggs Alpha Beta	10.1

Sources: Prudential-Bache, Drug Store Distribution Guide and SN Distribution Study

American Stores sales and earnings
(in millions)

	1982	1983	1984	1985
Sales	$7,507	$7,983.7	$12,118.8	$13,889.0*
Earnings	90.4	117.9	134.5	154.5*
Earnings per share	2.69	3.61	4.01	4.11*

*For fiscal year ended Feb. 1, 1986
Source: American Stores annual reports

Sav-on
OscoDrug

The chain has recently completed converting the Sav-on stores name to Sav-on/Osco. Skaggs has already been changed to Osco. One advantage of a single name for all drug stores will be enhancing customer identification for Osco's private label program.

Sav-on integration a priority

Continued from page 34

tion in Southern California faced by its Alpha Beta supermarkets. They responded by slashing retail prices on 6,000 sku's in an ongoing program, and boosting advertising and promotion.

Kosecoff predicts earnings per share for the current fiscal year ending February 1987 at $3.75, compared with 1985's $4.11. This will result in a price earnings multiple of 15.2 times for the year, about 10% less than the p/e multiple of the Standard and Poor's 400. He forecast American's 1987 earnings at $4.75, which would be an earnings multiple of 12 times, and a 20% discount to the market.

Analysts bullish

But analysts looked for improved fourth-quarter results, and they were particularly bullish on American Stores' long-term prospects.

They pointed to the company's consistent earnings growth, a return on equity record that easily surpasses the industry, and the fact that it has wide experience in aggressively managing assets.

American posted a compounded growth rate on earnings per share of 24% in the last five years. Return on shareholders' equity in 1986 was 18%, 50% higher than the market average.

Wall Street's bullishness is also partly a result of its faith in the managerial skills of chairman L. S. "Sam" Skaggs, who has rapidly constructed a national chain through shrewd acquisitions.

In 1970, Skaggs owned 98 stores, with $183 million in sales, and earnings per share of 31¢. Today, its 1,400 units generate $14 billion sales and $4.11 earnings per share.

Integrating Sav-on

A recent priority has been integrating the Southern California Sav-on stores into the drug operations. Market sources say the stores had lost merchandising direction and flair at the time American acquired them with its purchase of Jewel.

"What appears to be changing is the management direction. It looks like more control and more cost efficiency in the stores," said one source.

Market sources in Chicago said that Osco stores this year moved in the direction of increasing assortments in health & beauty aids and over-the-counter products. About 400 sku's have been added to the mix, creating "a more traditional drug store assortment" similar to Skaggs, a source said.

Osco in the past had leaned toward an "80/20" philosophy focusing on carrying the 20% of inventory that accounts for 80% of business.

"They had an initial philosophy of carrying only the top selling sku's in broad quantities at decent prices," the source said. Ophthalmic and eye care are two categories that have been expanded in the last six months in the Chicago market, the source said.

Estimated American Stores' drug division operating profits
(in millions)

	1983	1984	1985	1986
Osco	$ 55	$ 60	$205	$216
Skaggs	100	105		
Sav-on	10	10	14	
*Rea and Derick**	8	8		

*Sold November 1984
Source: Prudential-Bache Securities Inc.

Estimated American Stores' drug division sales
(in millions)

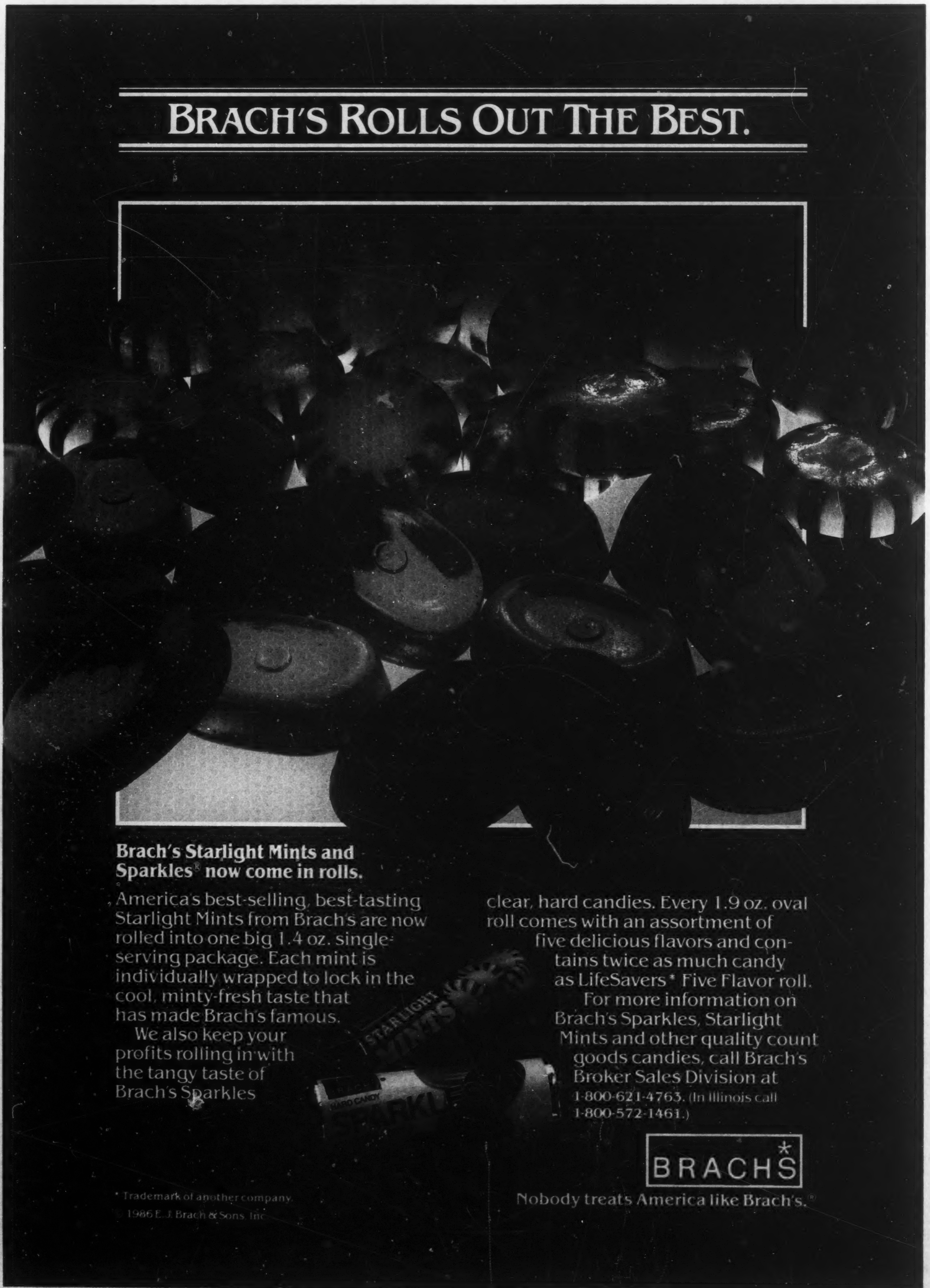
	1983	1984	1985	1986
Osco	$1,050	$1,150	$3,850	$4,780
Skaggs	2,000	2,090		
Sav-on	800	700	790	
*Rea and Derick**	200	160		

*Sold November 1984 Source: Prudential-Bache Securities Inc.

American Stores return on average stockholders' equity

1981	1982	1983	1984	1985
20%	24.5%	26.4%	30.4%	17.9%

Source: American Stores' annual reports



BRACH'S ROLLS OUT THE BEST.

Brach's Starlight Mints and Sparkles® now come in rolls.

America's best-selling, best-tasting Starlight Mints from Brach's are now rolled into one big 1.4 oz. single-serving package. Each mint is individually wrapped to lock in the cool, minty-fresh taste that has made Brach's famous.

We also keep your profits rolling in with the tangy taste of Brach's Sparkles clear, hard candies. Every 1.9 oz. oval roll comes with an assortment of five delicious flavors and contains twice as much candy as LifeSavers* Five Flavor roll.

For more information on Brach's Sparkles, Starlight Mints and other quality count goods candies, call Brach's Broker Sales Division at 1-800-621-4763. (In Illinois call 1-800-572-1461.)

BRACH'S

Nobody treats America like Brach's.®

* Trademark of another company.
© 1986 E. J. Brach & Sons, Inc.

Analysts eye hot battle in CVS market by '90

Ask drug store retailers to name the best "operational" company in the business and 9 out of 10 will answer: CVS.

Sources who compete with the 600 plus-unit chain in the Northeast say that only Walgreens comes close to rivaling CVS in operational efficiencies.

Both retailers who compete with the chain and vendors who sell to it marvel at CVS's mastery of its inventory and its in-store service rates.

Sources who know the chain well say their in-stock service levels are virtually always at the 97% level.

Tops in efficiency

"If CVS doesn't have an item in stock," said one former buyer, "it's usually not because the warehouse doesn't have it, but because the vendor can't supply it. They are unquestionably the most efficiently run company I've ever worked for."

"CVS will never tell anyone how they do it," said one source who knows the company well, "but there's no question they have the most efficient operations and distribution system in the business. Most companies who get big enough to do over a billion a year in sales run into problems operationally. The buyers and the merchandisers get out of touch with the stores, and there's usually a failure to implement all the merchandising plans.

CVS highlights

1969	Melville Corp. acquires CVS.
1972	CVS opens first store with a pharmacy.
1982	CVS opens Woonsocket, R.I., office and distribution center.
1985	CVS hits $1 billion in sales.

Source: *Drug Store News*

"Displays aren't put up when they're supposed to be put up. Things aren't ordered on time. Shelves aren't stocked. Or people are trying to stock during peak hours and the aisles get cluttered.

"CVS, however, doesn't have these problems, or they have them less than the rest of the industry. Their stores are clean. Their aisles aren't cluttered. They have virtually no out-of-stocks. They move fast in getting new products into their stores and promoting them well.

"If they have a flaw, it may be that they are too scientific, too much of an automaton. There may not be as much of a challenge there as there is with other companies, and they certainly aren't as creative with their merchandising and their product mix as, say, Walgreens."

Similarities with Walgreens

Other sources, however, say there are more similarities between CVS and Walgreens than there are differences.

Walgreens, of course, is still an independent, publicly owned company, while CVS is a division of the nearly $4 billion a year Melville Corp.

Walgreens, which is the industry's highest volume drug store retailer, has financed its own growth, and in 1986, Walgreens will have almost as much sales volume as CVS's parent.

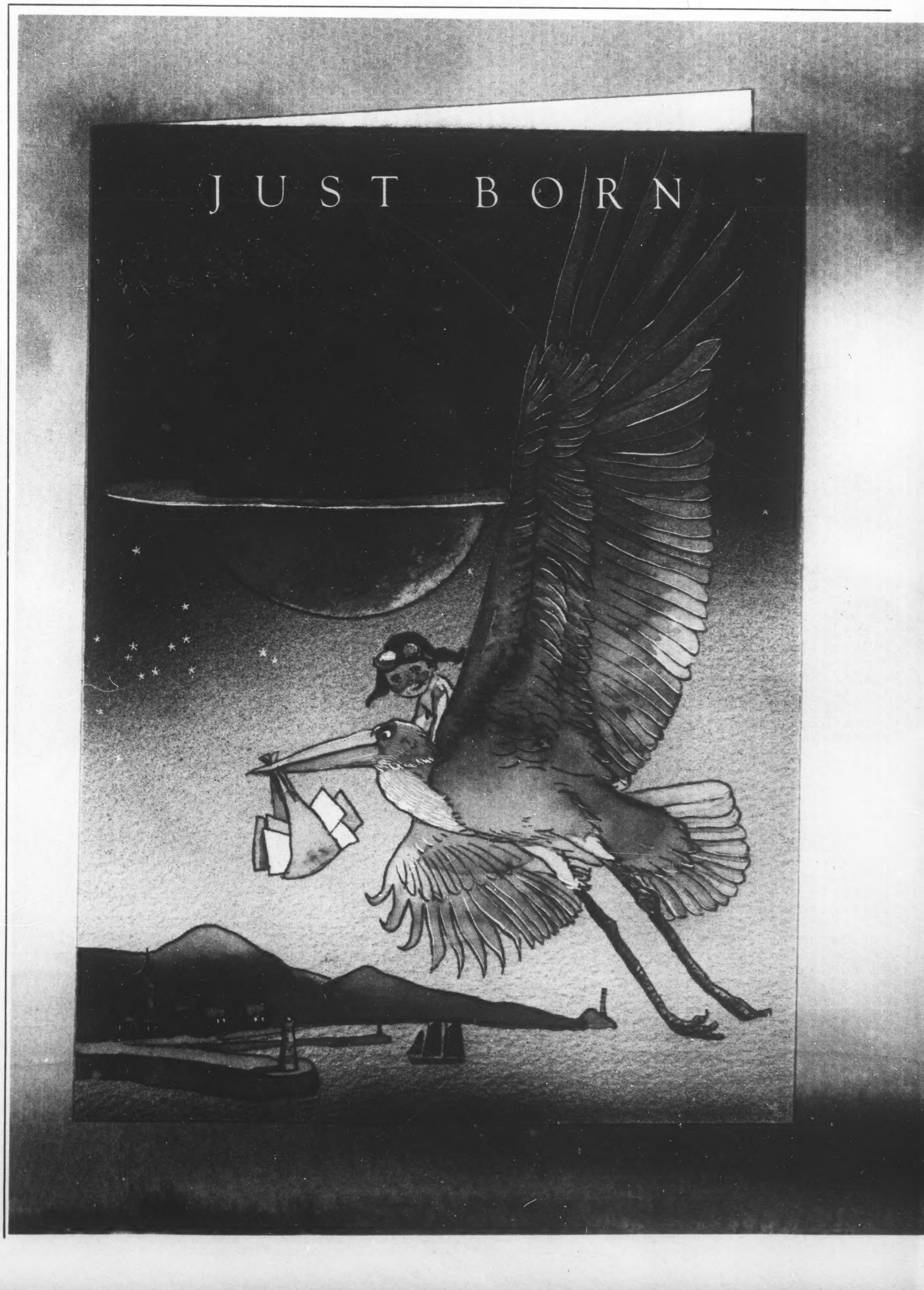
CVS, on the other hand, was just a 40-store chain doing a little more than $20 million a year in sales when Melville acquired it in 1969, and Wall Street sources say that CVS could never have grown as fast or as efficiently without the resources of Melville behind it.

However, analysts and retailers who know CVS well say it was their management—particularly the management of the Goldstein brothers who founded the chain and Stan Goldstein who headed it as president until he was promoted at Melville two years ago—who deserve credit for the success the company has enjoyed over the years.

"Walgreens' strength today is its management," said one Wall Street source, "and the same is true of CVS. Goldstein was particularly crucial because he was the one who began automating CVS, but their entire management structure has been very stable. They train their people well. They promote from within. They have very little turnover. They have very efficient procedures to follow.

"And, like Walgreens, they ship most of their merchandise in their stores from their own warehouse. I'd estimate that today almost 90% of what they sell in their stores goes

Continued on page 38



Pharmacy, stock refills hone CVS edge

CVS store growth

	CVS stores	% increase
1979	384	7.9%
1980	408	6.3
1981	433	6.1
1982	466	7.6
1983	513	10.0
1984	553	7.8
1985	592	7.1
1986 (Est.)	626	5.7

Source: Melville annual reports

When Melville acquired CVS in 1969, the company was primarily a small regional chain of health & beauty aid stores. None of the stores had pharmacies.

However, CVS opened its first pharmacy department in 1972, and by 1979, 52% of the chain's stores had pharmacies. By the end of 1986, some 425 stores, or 68% of the chain, will have pharmacies.

"We have pharmacies in virtually all the older stores that can support them," said a company source, "and almost all the new stores we open have pharmacies."

According to Wall Street sources, pharmacy sales are growing at about 25% a year for the chain, which accounts in part for some of the strong gains in same-store sales each year.

In stores with pharmacies, that department accounts for about 27% of sales. For the chain as a whole, pharmacy accounts for about 22% of sales.

"The other thing that makes their sales growth so strong," says an analyst, "is their automated systems and their low out-of-stocks.

"Many drug chains today lose sales because they don't stay in stock. People come in to buy something and the chain doesn't have it, particularly in cosmetics. CVS rarely has that problem."

Sophisticated systems

According to several sources at CVS, the computer system that Stan Goldstein helped develop accounts for the high service level to the stores. Sources say the company's two warehouses in Woonsocket, R.I., and Victor, N.Y., service approximately 85% of the stores in the chain and cover close to 90% of the products carried in a CVS store. CVS is currently looking for a site to build a third warehouse in California, where CVS now has about 35 stores.

The computer systems are so sophisticated that CVS, over time, can average out the weekly sales movements for any individual store in its system.

"We're not doing automatic replenishment," said a source, "but the store purchase histories are a tool for the individual store managers so they'll know what they should order."

Sources for the chain also say that CVS keeps a "heavier shelf inventory than the average drug chain." One source calls it "a safety stock on the shelf. We'd rather have the item for the customer than have absolute minimum inventories," he said.

Warehouse practices

Because the CVS warehouses will ship in threes or singles, however, the store inventory level is not unacceptably high. CVS managers, basically, do not order in cases. They order in pieces or singles and they order primarily to replace what they know they will sell from one warehouse delivery to another.

From its warehouse reports, CVS store managers know the individual turns on specific sku's in their stores. If one lipstick turns five times a week in store A and 15 times a week in store B, the managers of both stores know the turns on that sku and order accordingly.

In the cosmetics department and in certain segments of hair care, where service is crucial to staying in stock and staying on top of the latest fashion trends, CVS has its own corporate merchandising program, funded primarily by manufacturer allowances.

Merchandising program

The program is organized around five main geographic regions, and in each region a merchandiser is responsible for visiting each store a set

Continued on page 38

Most of CVS's sales remain in health & beauty aids and over-the-counter merchandise.

Another way Ambassador is working harder.

Announcing Ambassador's million dollar baby, "My Thoughts Exactly." A card line tested and proved to attract baby-boomers.

They're young, smart, affluent. They're the fastest-growing segment of your market. They're what researchers call the "baby-boomers." And they want fresh, untraditional greeting cards. The kind of cards they might not have been able to find in your store...until today.

"My Thoughts Exactly" is here—a new line of cards so with-it that it can turn even hardened baby-boomers into steady customers.

We've proved it. Each card is tested among men and women 18-40. Only one out of three cards makes it. And we plan to update the line constantly.

Quite an undertaking, especially since we intend to remain your best source for traditional cards, humorous cards and hot card properties. If anyone can do it, Ambassador can. Because we're a Hallmark company.

We draw upon more talented designers, writers, researchers, marketers and promotion experts than any other company in the field. And we know more about selling cards than anyone else in the world.

For a look at our latest offspring, and the ingenious new display that comes with it, call your Ambassador sales representative. Or call Pat Cullinan, our V.P. for new business, at 816-274-4562. And call collect.

Ambassador

Working harder to make it easier for you.

A Hallmark company.

Retailers give CVS high marks in operations

Sales growth trends for CVS

	CVS sales (in millions)	% increase	Freddy's** sales (in millions)
1979	$336.2	22.3%	
1980	$414.3	23.2	
1981	$499.8	20.6	
1982	$615.8	23.2	
1983	$734.1	18.7	
1984*	$876.6	19.4	$23.2
1985	$1.017 (bill.)	16.0	$42.4
1986 Est.	$1.169 (bill.)	15.0	$65.0

*Melville acquired two-unit chain of Freddy's Deep Discount Drug Stores
**CVS and Freddy's are independently operated divisions within Melville
Source: Melville annual reports

Continued from page 36

through their own DC, and that lets thems stay on top of what is selling.

"Everything is planogramed. Everything is tracked. Their stores are able to order just as much as they sell. No more. No less. That means they're not faced with out-of-stocks that could hurt sales, and they're not carrying more inventory than they need. It's one reason they're as profitable as they are."

Since Melville acquired

In the years since Melville acquired CVS, sales and operating profits for the chain have consistently gone up.

In 1985, Melville's last complete fiscal year, sales were up 16% to $1.017 billion, while operating profits were up 6% to $79 million.

In 1985, CVS accounted for 22% of all Melville's sales and 17% of its operating profits. They did this even though the 592-unit drug division at the time only accounted for 10.7% of all the retail stores operated by Melville.

In 1986, Wall Street analysts say, CVS is turning in an even stronger performance than it did in 1985. Same-store sales are up a little more than 10% for the first nine months of the year, and most analysts who follow Melville are predicting that operating profits will also be up "about 10%."

CVS's performance is impressive because it comes at a time when a lot of chain drug store retailers are suffering from flat sales and poor earnings. But there are external as well as internal reasons for their success, and some sources who know the company well say that the hardest test of their professionalism still lies ahead.

"Up until now," said John Huebner, an analyst who follows Melville for First Manhattan, "they've had the Northeast markets, where they're dominant, virtually to themselves. Their main competition was independents and food stores with pharmacies.

"But now they have Walgreens coming into their markets," Huebner continued, "and in the next four to five years, Walgreens says it plans to have some 150 to 200 stores in the Massachusetts-New York-New Jersey corridor. Pathmark is also stepping up expansion of its Heartland drug stores, and the Purity Supreme Division of Pathmark is reorganizing and they're saying they will be concentrating much more on their drug stores.

"I don't think all this will impact CVS very much at first. I think the independents and the No. 2 chains like Osco will feel the crunch first, but whether CVS can hold onto its market dominance as Walgreens and the others forge ahead is an unanswerable question. Only time will tell," said Huebner.

"I think you're going to see them get more like Walgreens, in the sense that they're going to make more of a pitch to the convenience-minded shopper who likes to use their drug stores for fill-in purchases," said one Wall Street source.

"The bulk of CVS's sales are still in health & beauty aids and over-the-counter products," said this source, "but they are thinking of expanding with a little more gm. They're looking at lines like microwave accessories and deli and dairy case groceries in select stores."

Merchandisers planogram

Continued from page 37

number of times a month.

These merchandisers don't bring merchandise into the store as rack jobbers do, but they, and not the store personnel, write the orders and reorders for the items in their program. They follow through with the planograms, they maintain the planograms and they work with the store's sales staff to make sure that all promotional and seasonal merchandise is properly signed.

They also double-check retail prices to make certain they're correct and up to date.

PABA FREE
SUNSCREEN
TI-SCREEN
SPF 15+
SPF 8
4 fl. oz., 118 ml
TI-SCREEN

In fact, TiScreen is 100% hypoallergenic. So it can be used by almost anybody with sensitive skin.

Powerful sun protection

TiScreen's unique formula combines two powerful ultra-violet absorbers, methyoxycinnamate and oxybenzone. According to the dermatologists who've tested it, there's no better sun protection.

And that's protection not only against sunburn but against sun damage that can cause premature wrinkling, brown spots and skin cancer.

Moisturizes, won't wash off

Because sensitive skin is susceptible to windburn and chapping, TiScreen contains moisturizers to keep skin soft and smooth. Its mild, non-greasy formula is easy to use after bathing or under makeup.

And as TiScreen is water-resistant, it won't wash off easily. Although after 40 minutes of strenuous exercise or water sports, we do recommend another application.

Available in SPF 15+ and SPF 8

For fair skin that almost always burns, there's TiScreen SPF 15+ Moisturizing Sunscreen Lotion.

WHAT MAKES TI·SCREEN® BETTER THAN OTHER SUNSCREENS IS WHAT WE DIDN'T PUT IN IT.

Ti·Screen: Created by dermatologists for sensitive skin

Sensitive skin not only sunburns easily, it irritates easily. And, as most sunscreens contain ingredients that can irritate sensitive skin, there used to be no alternative. Red, sore sunburned skin, or red, sore irritated skin.

That's why we developed new TiScreen sunscreen. The sunscreen created by dermatologists for sensitive skin.

No PABA to sting, stain

What we didn't put in TiScreen, people with sensitive skin are better without. Like PABA (para-aminobenzoic acid), the active ingredient in most sunscreens, which stings. Can cause rashes. Stain clothing. And may react with common antibiotic, antihypertensive and diuretic drugs.

No lanolin, alcohol or greasy oils

We didn't put in lanolin either, which can make sensitive skin break out. Or alcohol, which can dry skin. Greasy oils, which can clog pores. Or strong fragrances, which nobody likes.

In independent tests, TiScreen SPF 15+ achieved a maximum sun protection factor rating of "22." That's 22 times the skin's own natural protection!

For medium to fair skin that sometimes burns and sometimes tans, there's TiScreen SPF 8. And for delicate lip and face skin, there's TiScreen Lip & Face Protectant SPF 15+.

So take the doctor's advice

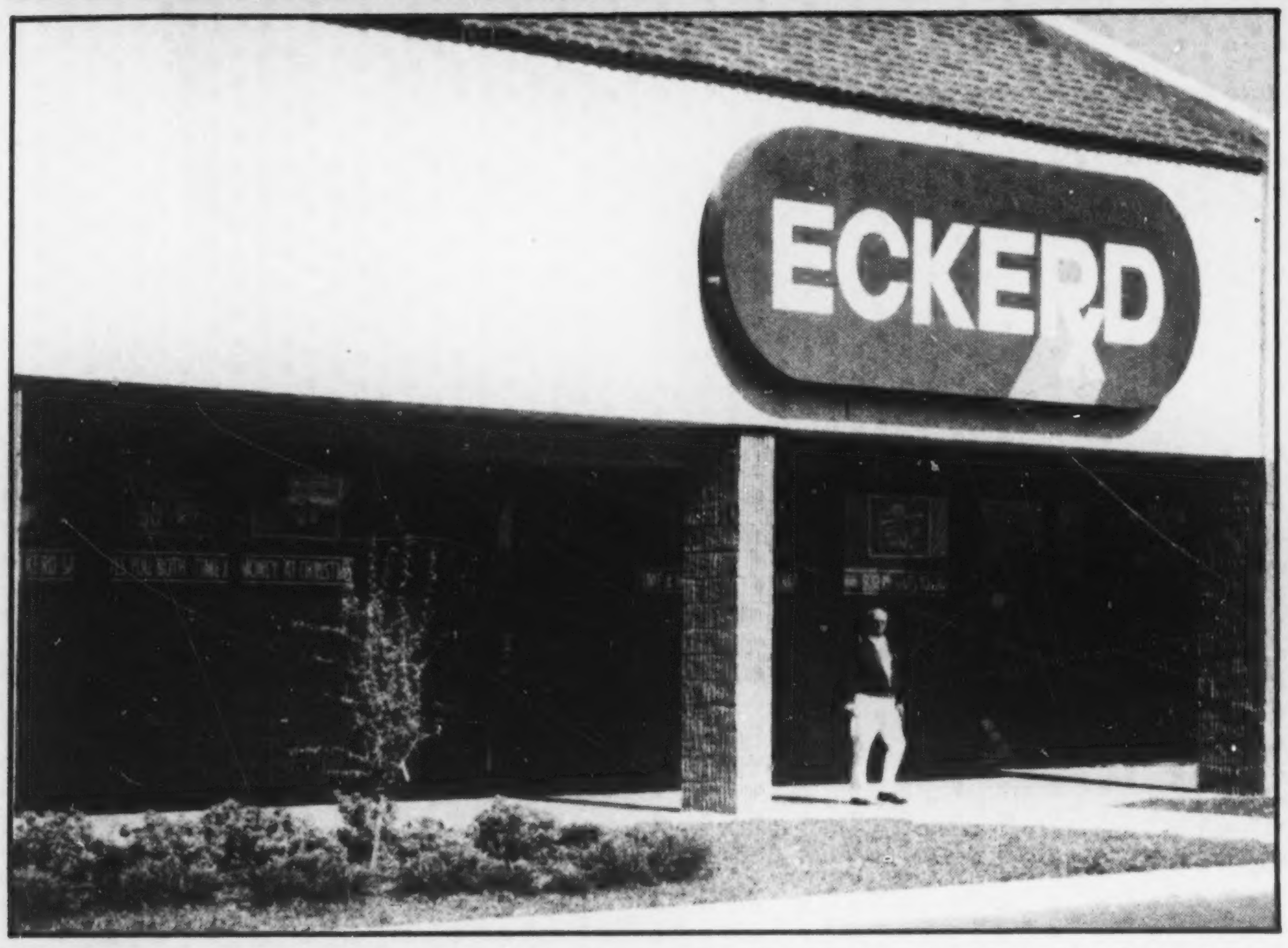
Recommend all three TiScreen products for people with sensitive skin: TiScreen SPF 15+ Sunscreen Moisturizing Lotion, TiScreen SPF 8 Sunscreen Moisturizing Lotion and TiScreen Lip & Face Protectant.

Read the label. Test it against other products. And you'll find that TiScreen is better than other sunscreens because of what we didn't put in it.

SUNSCREEN
TI·SCREEN

T/I Pharmaceuticals, Moraga, CA 94556
(415) 283-0540

© T/I Pharmaceuticals, 1986



Eckerd will remain opportunistic in its growth strategies, although it is focusing a great deal of energy on its Spartan remodeling program.

The new pharmacy layout is spacious, well signed and offers easy access to the pharmacist.

Eckerd off and running as private company

CLEARWATER, Fla. — "I feel terrific about where we are today."

The speaker: Stewart Turley, chairman and ceo of the Jack Eckerd Corp.

Eckerd recently completed its first six months as a private company following the leveraged buyout by its management, and its performance, according to Turley, is "right in line" with projections made in the Proxy Statement prior to shareholder approval of the deal.

"The debt level is below what we expected," Turley told *Drug Store News*. "The cash flow is a little better because the interest rate is lower, and the operating profit is pretty close to target."

What's more, the chain just closed a deal to buy 32 Shoppers Drug Mart stores in Florida from Peoples, which operated the Florida division for its parent company, Imasco Ltd. of Canada.

Still 'opportunistic'

Turley said the SDM purchase, which added to Eckerd's penetration of some key Florida markets, is "evidence that we're continuing to expand and to be opportunistic."

Turley also said that morale throughout the company has continued to improve dramatically after the uncertainty that preceded the April 30 shareholder approval of the buyout plan.

He said 250 executives had been given stock options in addition to the 30 in the senior management group. Moreover, the employee profit-sharing plan has a 6% ownership stake in the company. "So, there's widespread involvement of people," Turley said.

Deal delayed

The closing of the buyout deal had been delayed for several months while the buyout group studied in detail the effect of the Tax Code revisions on the plan. Turley called the delay "frustrating as hell."

In the end, however, the holdup turned out to be positive, he said, because interest rates had dropped in the meantime, bringing down the cost of the debt.

The chief executive insisted that the positive feelings of the senior management group never wavered during the months of frustrating delays. "We were inside, and we knew the situation," he said.

In the quarter ended July, its first as a private company, Eckerd filed a report with the Securities and Exchange Commission showing an operating profit of $43 million before interest and amortization expenses ($10 million after). But because of the amortization of assets writeup and depreciation expenses, the company reported a loss for the quarter of $53 million. That noncash accounting loss had been anticipated, and, in fact, the company had projected a loss of more than $200 million for the year.

Turley said the noncash loss has nothing to do with the underlying health of the company. "We're really managing the company for a positive cash flow after paying debt costs," he said. "We had a positive cash flow in the quarter of $21 million."

Uncluttered convenience

In its drive to improve its performance, Eckerd is placing a lot of emphasis on a total remodeling of its stores to give them a clean, uncluttered look and greater shopping convenience.

In the new, so-called Spartan layout, expanded greeting cards sections are positioned next to cosmetics and women's hosiery at the front entrance in an effort to appeal to that 70% majority of Eckerd shoppers who are women.

In addition, overhead signing has been improved to make the stores easier to shop. The new setup puts a mini food department with refrigerated coolers for milk and other beverages up front, thus enhancing the convenience feel of the store.

Barriers to easy shopping, like floorstands and a crossing gondola that used to act as a traffic flow director, have been eliminated. The merchandise mix has been revised to emphasize core drug store categories.

Turley said the new Spartan layout had been introduced in 230 stores so far, most of them in Florida. "We've wound down for Christmas," he said, "but we'll pick up again after the first of the year."

Targeting older stores

Although the ceo said next year's remodeling plans had not been finalized, the majority of the 250-300 stores scheduled for changes would be outside the Florida area. "We're really taking a look at the needs of some of the older stores," he said.

Eckerd concentrated the program in the Sunshine State this year, he said, because management wanted the remodeling teams to be operating "closer to home" in the first wave and also because some of the chain's older stores are in Florida.

This past year, the chain remodeled at least five stores in every district to give them a flavor of the program, Turley said. Next year the bulk of the stores will be in the Charlotte district, in Atlanta (Georgia and Alabama) and in the Houston and Dallas districts. Louisiana will get a few and so will Florida, Turley said.

Turley said there would be some small modifications of the layout next year, "but nothing significant."

Response 'favorable'

He said consumer response to the changes had been positive. "We've done some research which verifies that there is a favorable response," he said, but he would not say to what degree that response had been reflected in cash register rings.

"Obviously we feel good about it or we wouldn't be doing another batch next year," he added.

Turley said the Spartan layout changes were "not as dramatic" as the race track format that the chain had experimented with. He said that Eckerd had learned a number of things from its race track stores, which it incorporated into the new Spartan layout.

"But basically," he said, "we went back to a straight line layout because of our store size and because it's more efficient."

Turley said that despite some of the "wrenching" economic news coming out of Houston and to a lesser extent other Texas markets, Eckerd has no plans to exit that market.

"We're going to be looking at those Texas markets opportunistically," he said, adding that "Houston is still a major population center and eventually it will be a healthy market."

Print ad cutback

But the chain has cut back on its print advertising, he said. "Everyone, not just the chain drug industry, has gotten into a 'tabloid rat race,' rushing to see how many tabs we can add," he said.

He said that in doing so companies had shifted too much business emphasis to the promotional side and too little to the day-in-and-day-out sale of merchandise.

He added that as a private company Eckerd will be able to sacrifice some promotional sales by cutting back on print advertising in order to re-emphasize the sale of everyday items and the chain's position as a convenience business.

"We're repositioning ourselves to some degree," he said.

Turley said there would be no cutbacks (though there might be some modifications) in television advertising for Eckerd, which has turned up

Continued on page 40

Eckerd highlights

1968: Florida Eckerd opens 100th store.

1970: Eckerd of Florida renamed Jack Eckerd Corp.

1970: Jack Eckerd Corp. acquires 42 Mading-Dugan stores in Houston.

1971: Jack Eckerd Corp. fills 50 millionth script.

1974: Jack Eckerd Corp. acquires 81 Ward drug stores in Dallas.

1976: Jack Eckerd Corp. reaches 500 stores.

1977: Jack Eckerd Corp. merges with Eckerd of North Carolina.

1978: Eckerd reaches $1 billion in sales.

1979: Eckerd opens 1,000th store.

1986: Eckerd goes private in leveraged buyout by management.

Jack Eckerd Corp. sales and earnings

Year	Sales (billions)	% change	Earnings (millions)	% change
1983	$1.97	—	$71.7	+ 1.5%
1984	2.21	+12.1%	85.4	+19.1
1985	2.51	+13.3	– 8.3	—
1986*	1.31	—	34.0	—

*1986 is for six months ended Feb. 1; all others are fiscal years ended July

Source: Jack Eckerd Corp.

Spartan prototype features a cross aisle with promotional tables.

Accelerated remodeling plan aims to increase returns

Continued from page 39

consistently at the top of the list of big TV spenders among drug chains.

The Eckerd chief executive also said the chain would be cutting prices in some areas. He conceded that consumer perception in some markets was that Eckerd was high-priced.

He said that Eckerd wants "to soften that perception" over a period of time. He pointed out that price surveys have shown that Eckerd stands in the middle.

"Frankly," he added, "that's where we want to be."

Turley also said the chain had been working to improve its out-of-stock problems, and "our service level is better, though I wouldn't tell you all of our problems are solved."

Scanning experiment

Turley said Eckerd was not expanding its experiment in scanning at the cash register, but the chain does have more than 100 stores collecting data on the sku movement through the checkout. These stores have now been collecting information for more than a year, which gives the chain comparable item movement data to work with.

Eckerd plans to add 60 more stores to its panel of POS stores, Turley said. "That will give us a geographic spread."

Will it make the information projectable for the entire chain?

"We think it's projectable right now," Turley replied.

Eckerd stokes growth engines

Year*	No. of stores	% gain
1983	1,319	6.5%
1984	1,423	7.9
1985	1,525	7.2
1986	1,618	6.1

*1986 current; others are fiscal years ended July
Source: Jack Eckerd Corp.

Visionworks

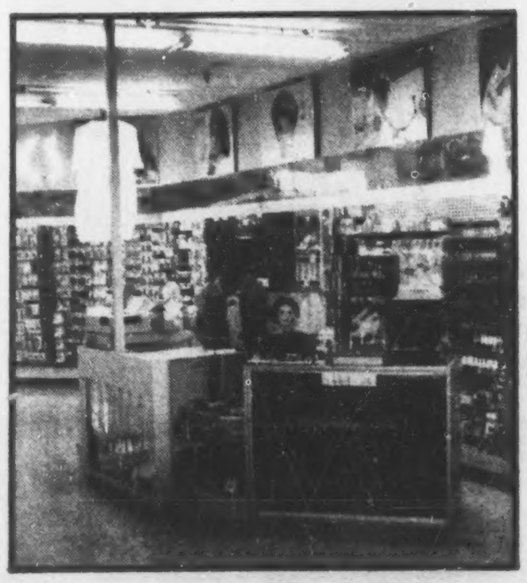
Jack Eckerd Corp. will open three more Visionworks centers right after the first of the year and may add more next year, according to Stewart Turley, chairman and ceo.

The three openings, all in Florida, will bring to eight the number of Eckerd's super eyecare stores in operation.

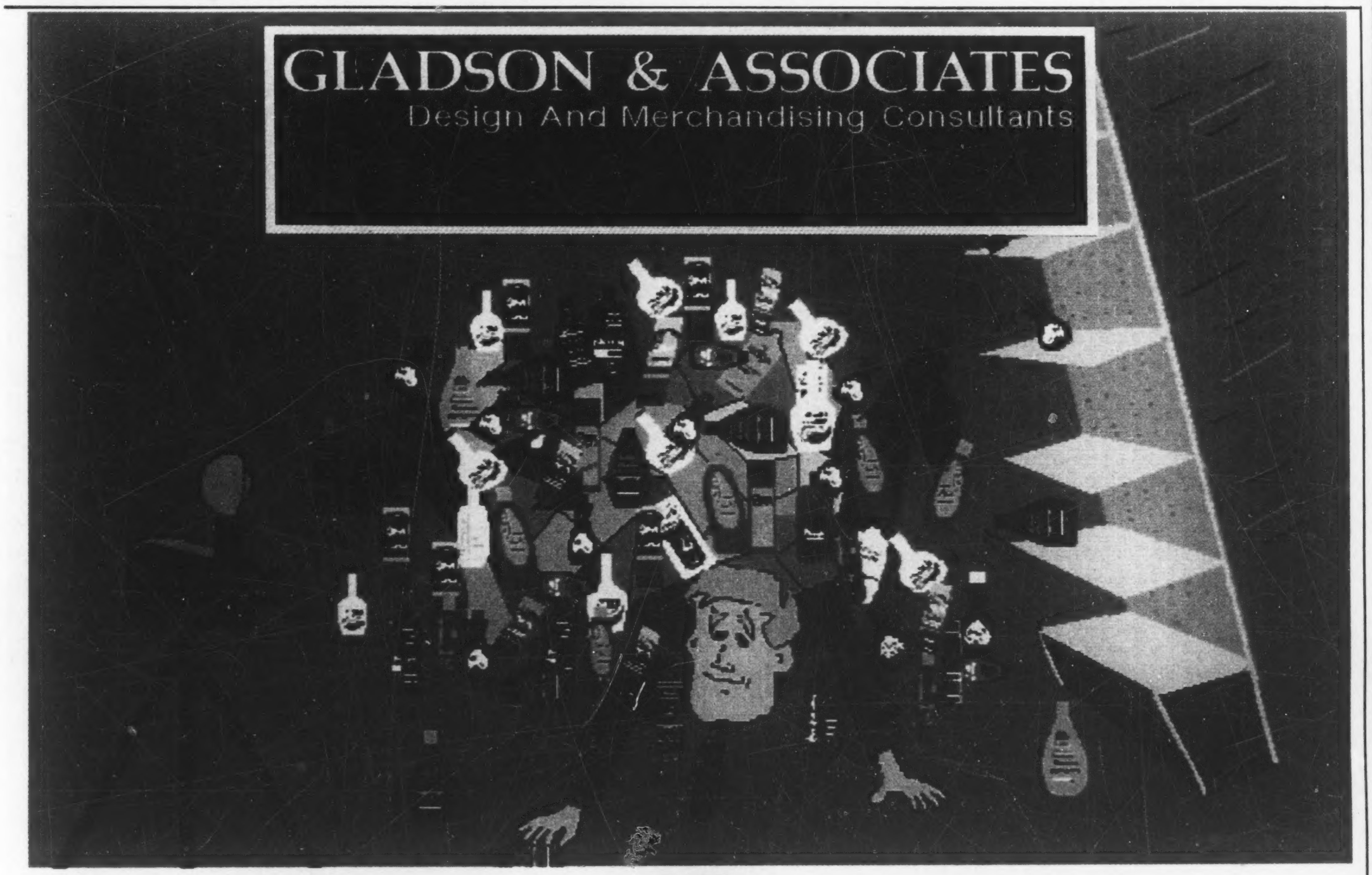
"We're pleased with the first group of stores that we opened," Turley said, "and we're looking for additional sites."

Turley said the company had learned that the super eyecare business is more complex than the optical centers it operates in many of its stores. "It requires much more extensive capital outlays. Every unit has a laboratory and much more extensive inventory."

He pointed out that a Visionworks store carries 8,000 to 10,000 frames compared to 700-800 in the typical outlet.



Warm colors and spaciousness mark the new cosmetics layout.



CTP
COMPUTERIZED TRADE PLANOGRAMS MAKE SENSE . . .

35mm planograms are on the way out and fast. The reason is the planogram computer. At Gladson & Associates, we generate planograms on a Via Visual System II. Check out the many benefits listed below.

BENEFITS:

- Analysis of HBA data, whether national or store specific, results in a "user friendly", full color, 8 x 10 retail planogram with shelf-by-shelf, typed supplements for easy re-sets.
- One-time product (sku) load into video database (no more handling of merchandise) makes computer planograms very cost effective.
- Perfect picture every time (no hot spots, shadows, etc. requiring re-sets).
- State-of-the-art – Planogram development is driven by your database or your clients database.
- Select any criterion – Space to Sales (Dollars or Units), Gross Margin, ROII (Return on Inventory Investment), DPP (Direct Product Profit), etc. and planograms will be generated to reflect the data.
- A planogram backed up by hard facts guaranteed to win consumer and buyer support.

Gladson & Associates, Inc. is the acknowledged leader in computerized planograms. If you are interested in how we can develop a Computerized Trade Planogram Program for you or sell you the hardware and software for you to do it yourself, call (312) 810-0090 and ask for Bruce Laffee.

GLADSON & ASSOCIATES
Design and Merchandising Consultants
For more information on all Gladson & Associates services, call or write today for our brochure.
1982 OHIO STREET, LISLE, ILLINOIS 60532 TOLL FREE 1-800-538-9945

MEILLEURS VOEUX
HERPECIN-L®
Cold Sore Lip Balm. "It Works!"
Write: CAMPBELL LABORATORIES, INC.
P.O. Box 312-A, FDR, NY, NY 10150

Maybelline
Elizabeth Arden

Longs' cosmetics department set, which the chain developed with the help of Revlon, is being rolled out to all stores.

At Longs' Walnut Creek store, Hallmark card department was moved up front adjacent to cosmetics to give more exposure to high-impulse, high-margin greeting cards.

Longs per-store sales outpace industry's

WALNUT CREEK, Calif. — Considering the competition for attractive retail sites in Longs' primary markets and the company's conservative approach to financing, its growth in the past two years has been notable.

Longs opened 17 stores in fiscal 1985-86—10 in the final quarter alone—and should add another 15 by the time the current year closes in January. In fiscal 1987-88, Longs will launch perhaps another dozen.

Stores range from 15,000 to 40,000 sq. ft., but the typical recent superstore prototype is 26,000 sq. ft. Despite the size, Longs manages to generate the highest sales per square foot—more than $400—among the major chains, as well as the highest average sales per store—more than $7.5 million.

Expansion's impact

Longs' rapid expansion has not been without growing pains. In opting for heavier capital spending for new stores, the chain sacrificed some short-term gains. Flat earnings in the last half of fiscal '86 and the first half of this year were partly the result of this strategy. They also slightly tarnished Longs' Olympian reputation on Wall Street.

Reputations are quickly repaired, however, when profits rebound, and Longs expects its investment in new stores to pay off in future earnings growth as the stores mature.

Moreover, other factors that put a brake on Longs' earnings growth, including a sharp increase in insurance costs and a drop in interest income, should have much less impact on next year's earnings comparisons. The reduced corporate tax bite will also help.

"The fourth quarter should be good, and we plan on going uphill from there," says William Combs, vp-administration and treasurer.

Looking ahead

Some analysts are forecasting that the fourth quarter will see a 12¢ increase in earnings per share to 52¢ from 40¢ in the dismal fourth quarter of last year. That would bring Longs' earnings per share for the year to $1.78, up from $1.74 in fiscal 1985-86. But it's beyond this year that Longs' management is looking to. Some analysts believe earnings per share will hit $2 in fiscal 1987-88.

Longs continues to have one of the strongest balance sheets in the industry, with no long-term debt and a stake in real estate that's hammered deep into Western bedrock. Almost 60% of its stores are company-owned and 40% of its stores sit on company-owned land.

Takeover-shy

Ironically, it's numbers like those that caused some worries at Longs' Walnut Creek headquarters. Top executives have made no secret about their concern that the company's glittering balance sheet and solid real estate holdings might make it an attractive takeover candidate for a corporate raider.

So Longs has worked hard to set up defenses, and is now bristling with armaments designed to ward off attack. "Of course," as one observer said, "the best defense is to keep the price/earnings ratio high."

Part of the strategy includes a plan to buy back up to 2 million of Longs' almost 22 million common shares outstanding.

The buyback plan will not only "help to ensure our continuation as Longs Drug Stores," says Bill Combs, but will also enhance the value of the shareholders' stock. About 30% of that stock is controlled by the Long family, and only about a third by institutions.

Employees' stake

Continuation as Longs Drug Stores is important to the company's employees as well as its management. That's because Longs has evolved under a decentralized management system that places a great deal of operational authority in the hands of store managers and their staffs.

"We have over 200 ceo's out there," quips one executive, referring to the store managers. Indeed, the managers have an unusually powerful say, almost like feudal lords, over their retail domains.

They can hire and fire, of course, but they can also order or not order and partake or not partake in chainwide promotions. Thus the managers, assistant managers and department heads,

Continued on page 44

Longs highlights

1954: Longs unveils its first store in Hawaii and also its first outside its California home base.

1977: Longs opens its 100th store, in Hawaii.

1982: Longs reaches $1 billion in sales.

1985: Longs opens first stores in Colorado market.

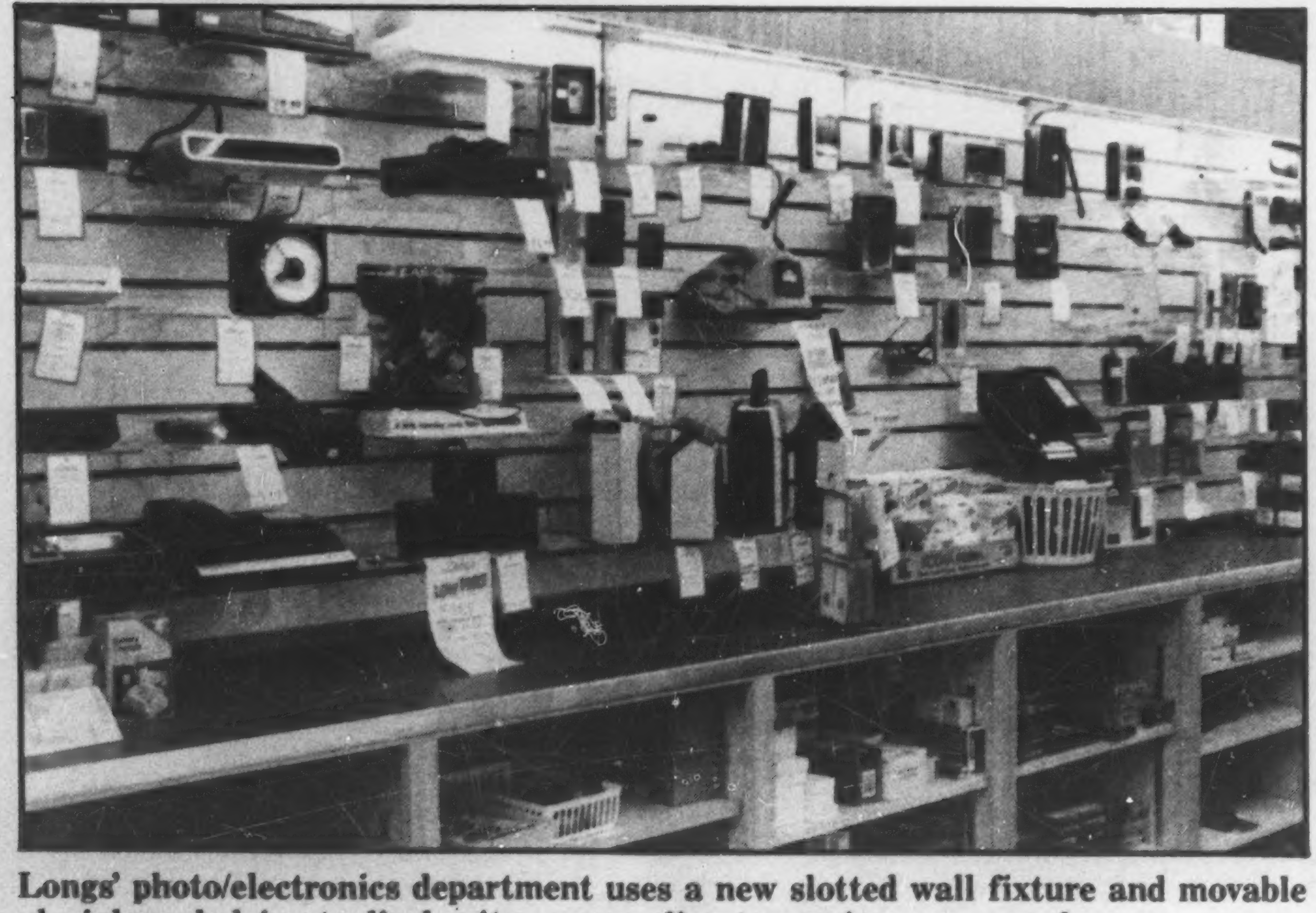
1985: Longs opens 200th store, a 15,000-sq.-ft. unit in St. Luis Obispo, Calif.

Longs 5-year financial data

(in millions)

Year	Sales	Net income	Total assets
1986	$1,481	$37.7	$411.3
1985	1,376	40.1	360.6
1984	1,214	36.4	322.6
1983	1,123	30.9	287.4
1982	1,005	30.3	273.2

Fiscal year ended Jan. 31
Source: Company reports



Longs' photo/electronics department uses a new slotted wall fixture and movable plexiglass shelving to display items according to varying space needs.

Special events spell success

Decentralized decision-making works well for Longs, but so do chainwide events, as the company proved with its recent "OctoberBest" festival.

The event—a play, of course, on the German OctoberFest—drew many additional customers through a four-week promotional blitz that featured a prize sweepstakes: 10 Suzuki Samurai automobiles were given away.

The campaign was kicked off with a chainwide roto ad and was followed by three weeks of local support from Longs' 70 different ad groups in the continental United States.

Longs also used a lot of radio ads during the promo. "We probably exposed Longs more during that period than any other," says Phil Paz, vp-merchandising and sales promotion.

One key to the success of the promotion was the heavy participation of store employees in a display contest that featured the OctoberBest theme. A prize of $1,000 was given to the winning store in each of 10 districts, and $500 went to the runners-up. Many of the winners used colorful Halloween or harvest themes.

The event, according to Paz, was "pretty much vendor-funded. Our volume is so tremendous that vendors just stand in line to be a part of it."

This was the second such chainwide promotional event Longs has sponsored. The first, built on the Lady Liberty theme, was held last February.

Paz says Longs will be sponsoring similar events in the future, probably two a year. "We enjoyed tremendous success," he says.

SPECIAL REPORT: BILLION $ CLUB

Talented managers at core of Longs customer service

Continued from page 41

right on down to the clerks, cosmeticians and pharmacists, have a stake in retaining their own distinct "company culture." Longs' employee profit-sharing plan also owns around 10% of the company's stock, which increases that stake.

Longs' decentralized system also means much less reliance on centralized distribution. Each store acts as its own warehouse, with about one-third of the typical 26,000-sq.-ft. store given over to backroom operations.

Centralized distribution of some goods, largely seasonal and imported, has been on the increase, however, as the chain seeks to use its enormous purchasing power to hammer out the lowest prices on promotional items.

'No forced merchandise'

"There has been some increase" in the merchandise bought centrally and redistributed to the stores through smaller DCs in northern and southern California and Hawaii, says Bob Long, president and ceo. "But there is no forced merchandise," meaning the managers continue to have the final say on what appears on their shelves.

Longs store growth

Year	No. of stores	Total sq. ft.*
1986	208	5,272
1985	191	4,854
1984	178	4,507
1983	173	4,360
1982	162	4,089

*In thousands
Fiscal year ended Jan. 31
Source: Company reports

Bob Long, who, like most executives at the company, came up through the ranks and served as manager, puts a lot of stock in the managers' ability to carry out the company's objectives.

Relies on managers

"We have a lot of talent out there," Long says. "The store manager is pretty darn close to the customer and is able to anticipate and react readily to that customer's needs."

Reacting locally to customer needs is the central core of Longs' approach to business. In order to service those needs better, the chain has stepped up its training, especially in such departments as cosmetics and photography, where more informed service can generate plus sales.

Longs has a small cadre of trainers in the field whose sole mission is to keep store personnel up to date on the latest advances in those two key core departments.

Pharmacy is another area in which service is crucial. So Longs recently reconfigured its pharmacy department layout to bring the pharmacist closer to patients.

Remodeling policy

In the remodeling area, Longs tries to keep all stores up to date on a year-to-year basis, rather than completely remodeling a certain percentage, say 10%, of the oldest stores every year.

"The easiest way to see it is to look at a new store and one that's 15 years old," says Bob Long. "In many ways it would be difficult to tell them apart."

Longs manufactures its own fixtures at a plant in Benicia, Calif., not to save money, according to Ron Plomgren, senior vp-development, but to assure better quality, greater longevity and quicker delivery to the stores. All of the fixtures are modular, so they can be used in any store.

"Our fixtures don't cost less," Plomgren explains. "But we take that profit margin and put it back into higher quality and longevity. A lot of our fixtures go back to 1968, but it would be difficult to tell that by looking at them."

Longs has completed a four-year program to develop and install pharmacy computer systems throughout the chain. The chain uses Hewlett-Packard hardware and company-developed software. The system also handles cash receipts and electronic mail, and Bob Long says the company is looking at other applications as well.

Participate in the
monthly **CE program.**
Contact: CE coordinator
Drug Store News
Suite 535
305 Madison Ave.
New York, N.Y.
10165-0079

GUTES NEUES JAHR
HERPECIN-L®
Cold Sore Lip Balm. *"It Works!"*
Write: CAMPBELL LABORATORIES, INC.
P.O. Box 812-A, FDR, NY, NY 10150

The Counter
IBM

The Jr. stores target smaller trading areas.

Thrifty uses two formats to extend its market reach

LOS ANGELES — Thrifty Jr., the downsized version of Thrifty's conventional drug store, is the beanstalk of the chain's expansion program.

By opening 25 Jrs. per year, Thrifty will double its annual new store growth rate. Thrifty is also adding 25 conventional Perfectos per year.

The Jr. format burst onto the retailing scene early in 1986 as the result of three rapid-fire acquisitions: 15 Drug Kings in February, 12 Guild Drugs in April, and 4 Guy's Drug Stores (northern California) in August.

In addition, Thrifty signed sub-leases with Ralphs Grocery to build 4,500-sq.-ft. Jrs. in the lobbies of 10 Giant superwarehouse stores in southern California.

In a matter of months, the Jr. division grew from a scratch start to 41 stores.

Jr.'s appeal

Why has Jr. (3,000- to 11,000-sq.-ft.) become the darling of Thrifty Corp. (now a wholly owned subsidiary of Pacific Lighting)?

Leonard Straus, Thrifty chairman, states it succinctly: "With all the volume we do in California [467 stores], we still reach less than 50% of the consumers."

The Jr. format enables Thrifty to reach more consumers by going into areas that can't support a full-size 19,000-sq.-ft. Perfecto. Jr. stores target trading areas of 8,000 to 11,000 people.

The overriding reason for going to Jr., of course, is that it is highly profitable. Because of the convenience factor, especially in key downtown locations, Thrifty can achieve 30%-plus gross margins. Moreover, inventory investment is less than a conventional drug store because Jr. "creams" the fastest movers and carries fewer sku's.

Thrifty expects Jr.'s productivity to be "several hundred dollars per foot and to increase as the store benefits from Thrifty's aggressive advertising," according to a Thrifty Realty Co. source.

Economies of scale

In addition, the stores will derive economies of scale from Thrifty's centralized distribution, buying, accounting and EDP systems. Then, too, Jr. has instant name recognition.

True, Jr. is the driving force of Thrifty's current marketing program, but long before Jr. became a gleam in the corporate eye, Thrifty had topped the billion-dollar sales mark. So there were other contributory factors—and they included:

Diversification. It was long in coming. Forty-two years after its founding, Thrifty acquired Big 5 Sporting Goods when that company operated 18 stores. Now there are 90. Over the past 15 years, sales have increased at an annual compounded rate of 22.2% and profits, 24½%.

Two years later—in 1973—Thrifty acquired Newman Importing, with good results: annual compounded growth rate of 17% on sales and 20% on profit.

But not all acquisitions have performed as well.

Thrifty's most glaring failure was Trak Auto West, owned 50% by Thrifty and

Continued on page 46

Revolution.

A new, flexible POS system built around the power of the IBM PC AT.

Introducing a completely new, drugstore point-of-sale system from IBM.

At the heart of the system is an in-store IBM Personal Computer AT that controls your registers and runs your office applications. But this is no ordinary PC AT. One peek under the covers reveals some very sophisticated cards. One of these cards handles the "store loop," or communications connecting all of the terminals to the controller. A second card handles telecommunications with IBM mainframe computers.

Terminal Intelligence

If the controller is the heart of our system, then the new IBM 4683 POS Terminals are the muscle.

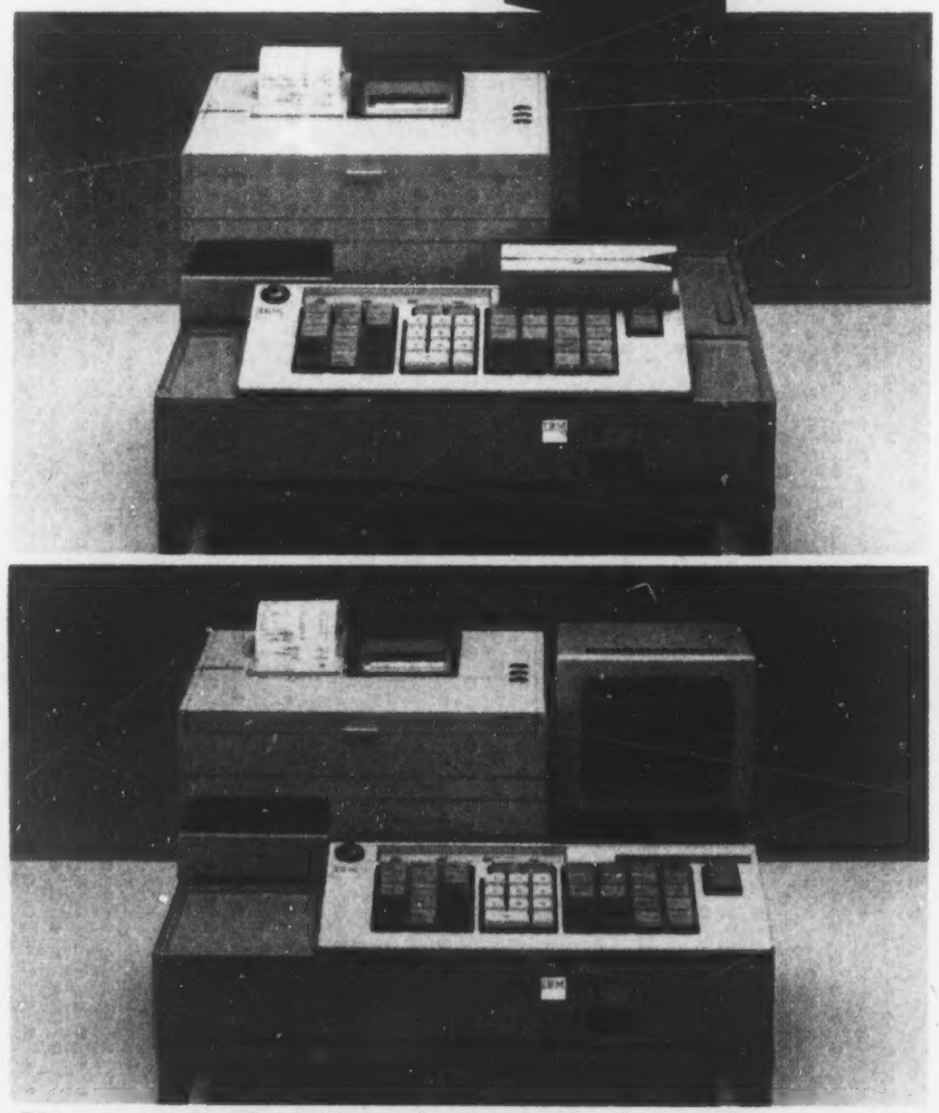
Like the controller, the Model 1 terminal also has the intelligence of the PC AT, along with 1 Mb of memory. It can even support the more economical Model 2 terminal.

Both terminals look alike, and by attaching a number of retail devices you can create your own customized terminal configurations. These devices include a choice of displays, scanners, a credit card reader, even a second cash drawer. And these components work together just as well in a distributed system. So you can stow the processor and cash drawer out of sight, for example. All of which gives you the flexibility to grow.

Software To Go

New IBM software is written, tested and ready to go. And it can be customized using the IBM 4680 BASIC language.

For more information on the counter revolution, talk to your IBM marketing representative or see your nearest IBM authorized Store System Value Added Dealer. For literature, use the coupon or call 1 800 IBM-2468, Ext. CF/315.



Shown to the far left and above are three of the possible configurations of the IBM 4683 Point of Sale Terminals.

IBM®

IBM
DRM, Dept. CF/315
101 Paragon Drive
Montvale, NJ 07645

12/8

☐ Please send me information on the IBM POS System.
☐ Please have an IBM marketing representative call me.

Name__________ Title__________
Company__________
Address__________
City__________ State_____ Zip________
Phone__________

GUTES NEUES JAHR

HERPECIN-L®

Cold Sore Lip Balm. *"It Works!"*

Write: CAMPBELL LABORATORIES, INC.
P.O. Box 812-A, FDR, NY, NY 10150

Thrifty strategies meet challenge of change

Continued from page 45

50% by the Dart Group.

After being on the block for six months—and after Thrifty had lost $11 million in three years—Thrifty sold its share to the Dart Group. In so doing, Thrifty paid a hefty price by contributing $11.7 million to Trak Auto West's capital in return for being relieved of $40 million in loan guarantees.

Along with Trak Auto West, Thrifty sold its 34% interest in Crown Books to the Dart Group. Unlike Trak, there was no trail of red ink plaguing Crown because Crown had been profitable almost from the start. And Thrifty realized a good profit when it sold its share of the discount book chain for $37 million. Thrifty bought into Crown for $12 million in 1980.

Outside of the dollars-and-cents consideration, insiders say Thrifty sold both Trak and Crown because the drug chain did not have the operational control it wanted. In other words, Dart called the shots, and that's not Thrifty's style.

Pharmacy. For many years, pharmacy had been a thorn in Thrifty's profit side. Fiscal 1979 was the first time in 50 years that Thrifty's prescription department made money. But Thrifty failed to sustain the pace and slipped back into the red the next year.

Thrifty growth trends

(in millions $)

FY end 8/31	Corporate sales	Corporate net	Thrifty stores at year end	Big 5 stores at year end
1982	$1,126	$18.3	533	62
1983	1,187	22.5	537	65
1984	1,299	27.9	542	71
1985	1,404	31.9	555	86
1986	1,501	25.0*	583	88

*Full year net unavailable at presstime. This is net for the nine months ended 5 31 86, on sales of $1.1 billion.

Thrifty markets

State	Store counts
California	494*
Arizona	34
Washington	18
Nevada	12
New Mexico	11
Utah	8
Idaho	3
Oregon	2
Wyoming	1

*Includes 27 Thrifty Jr. stores

Source: Thrifty

Thrifty reacted by launching a dramatic turnaround program that boosted Rx volume from 9% of total store sales to 14½% in five years—and put Rx firmly into the black.

The renaissance of Rx is traceable to three major developments:

1. Aggressive promotion of third-party plans. Thrifty now has contracts with almost 100 organizations—mainly corporations and unions.
2. An increase in productivity due to pharmacy terminals. This has been achieved by going from double shifts to single shifts in some stores, thereby reducing labor costs.
3. Bonus system for pharmacists. The bonuses, which apply to both single- and double-shift stores, are based on filling scripts in excess of a pre-set number per day.

Computer Systems. Thrifty had come lately to self-service cosmetics and liquor as well as promotional food, and that also happened with in-store computers. But once the chain decided to move, it was by leaps and bounds.

Early in 1985, Thrifty entered into a $60 million joint venture with IBM to develop and install a comprehensive in-store computer system over the next five years. The system includes IBM Series 1 pharmacy computers and POS systems, using an IBM Series 1, and six or more IBM personal computers in each store.

The system has four major applications: POS registers, direct store delivery system, store inventory management system and energy management/labor scheduling.

Sales and profits. Sales have increased for 56 consecutive years, and earnings have improved in 29 of the last 31 years.

In addition, Thrifty has recorded an average return on equity of 18% over the last five years.

That equity return was one of the reasons Pacific Lighting was drawn to Thrifty as a potential acquisition.

Says Paul A. Miller, chairman of Pacific Lighting: "The 18% return on equity is above the levels currently permitted Southern California Gas Co., [owned by Pacific Lighting] by the regulatory authorities or achieved by our other lines of business." These include oil and gas exploration and energy production, land development and financial services.

Miller proposed merger during lunch with Leonard Straus, and after turning down countless suitors over the years, Straus said, "yes."

That merger succinctly dramatizes the reason for Thrifty's success: They met the challenge of change.

Thrifty highlights

1929: Opened first store in downtown Los Angeles.

1942: Opened one of nation's first self-service drug stores. At that time Thrifty operated 58 stores with $17 million in revenue.

1953: Introduced superdrug stores in the 20,000-30,000-sq.-ft. range

1971: Bought Big 5 Sporting Goods chain.

1973: Bought Newman Importing.

1977: Changed name to Thrifty Corp., to reflect broadened scope of its operations.

1979: Celebrated 50th anniversary.

1981: Reached $1 billion in sales.

1986: Acquired by Pacific Lighting Corp.

Milestones of growth

100 stores — 1953
200 stores — 1963
300 stores — 1968
400 stores — 1973
500 stores — 1977
600 stores — 1986-87

Streamlining is Perfecto's key to success

Perfecto is a derivative of "perfect," and that was Thrifty's ideal when the prototype was launched in the 1970's.

Perfecto's merchandising and operating concepts are responsible for sales increases of up to 100% in remodeled stores. Currently, 79% of Thrifty conventional stores have been given the Perfecto treatment. All stores should be completed by 1988 or 1989.

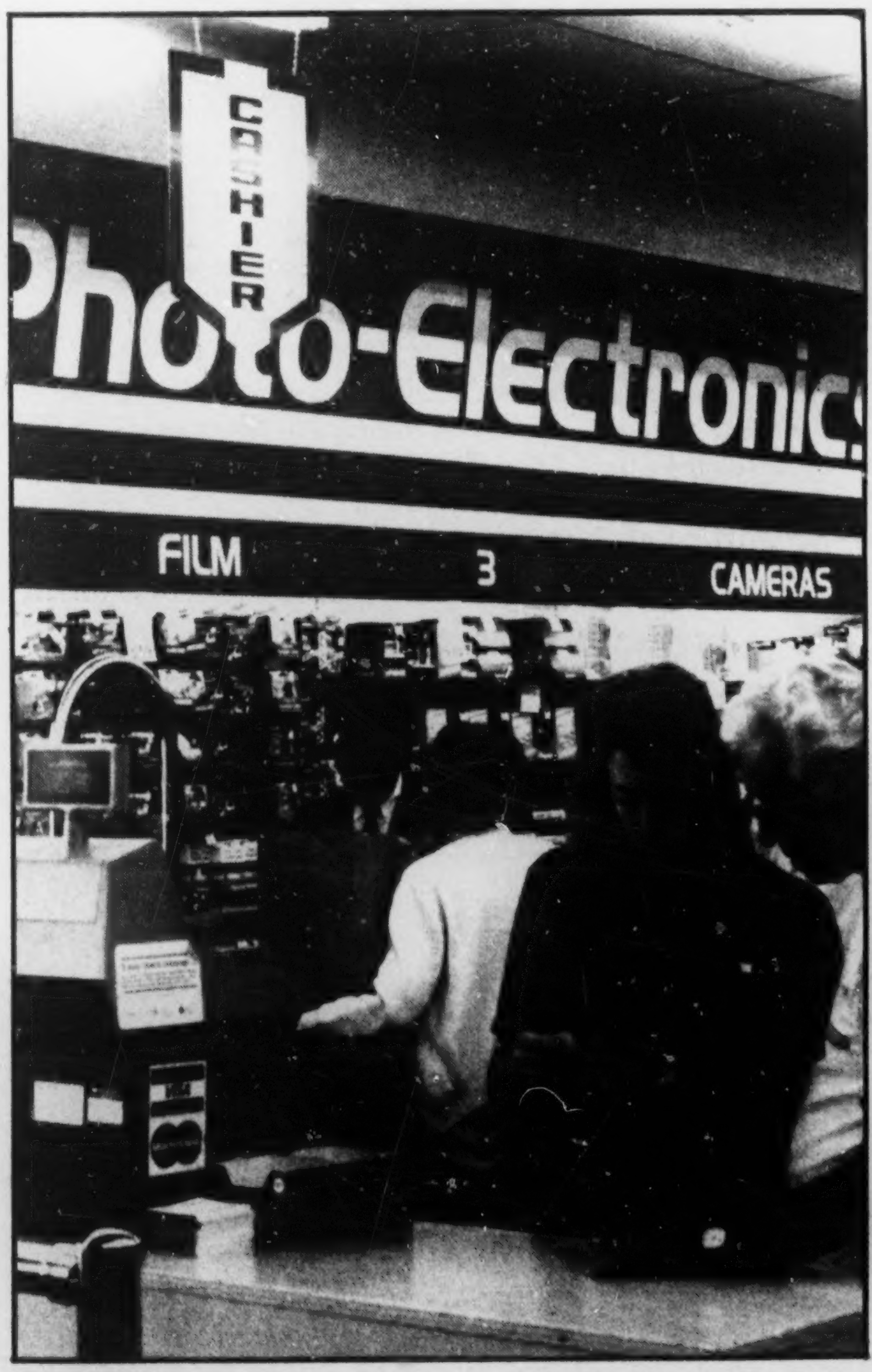
The Perfecto operating philosophy is to clean up the stores, beef up the payroll, strip away slow-moving items and replace them with fast-turn national branded consumables, and, at the same time, expand private label and promote it aggressively. The end result: fewer out-of-stocks, more repeat business—and less shoplifting, because more clerks are now on the floor.

One of the first moves in Operation Turnaround was eliminating 4x4 promotional tables just inside the turnstiles where 12 to 17 were grouped. When the tables sold down, they were an eyesore at the entrance.

Thrifty took a page out of Longs' and Pay Less' promo book by placing a dozen of the 4x4 tables along the cross-aisle and policing the sell-through.

Thrifty had been slow to move to self-service cosmetics, but with Perfecto, a boutique-like department emerged. Instead of showcase counters with stock behind the counters, Thrifty went to etageres and island fixtures.

In other moves, apparel was sharply reduced, auto supplies were stretched to 64 ft. and a strong statement was made for promotions/seasonals with more gondolas, punctuated with 4-ft. platforms in the aisles.



The Thrifty expansion plan now calls for 25 new Perfectos and 25 new Jr. format stores each year.

YES...YOU CAN TRA
HEALT

Thrifty has raised prescription volume dramatically in the past five years by pursuing third-party plans, adding pharmacy terminals and establishing a bonus system for pharmacists.

Pay Less expansion picks up under K mart

By Lou Karney

WILSONVILLE, Ore. — Pay Less NW stepped up its expansion pace since being acquired by K mart—and the difference is significant.

Pay Less opened 40 stores in its first year under K mart and will follow with 40 to 50 per year after that. This compared with 5 to 10 stores opened each year by Pay Less prior to the acquisition.

By year-end, Pay Less will be operating 193 Pay Less drug stores, 7 Key Drug stores, 2 Value Giant deep discount drug stores and 18 Wonder World discount stores.

No rush to go national

There has been talk of Pay Less becoming a national chain, but not in the foreseeable future, according to Ron Schiff, president of Pay Less. "There is plenty of growth in our existing territory—Washington, Oregon, California, Idaho and Nevada [one store]—now." Expansion beyond those five state will most likely follow a contiguous pattern.

Pay Less could expand rapidly because it had manpower and systems in place. This was evident by sales and profits in the last fiscal year (ended Jan. 31, 1985) before the K mart acquisition. Pay Less hiked profits 26% and sales 7.8%. That stellar performance came on the heels of an equally impressive fiscal 1984, when earning rose 28% on a sales increase of 9%.

Pay Less has also posted the second highest per-store volume in the nation (topped only by Longs) for years.

Seasoned management

What keeps Pay Less in high-drive, year after year?

Some say it's a management team experienced in all levels of operations.

Except for the head of real estate, everyone in upper management began at store level. That's where cofounders Peyton Hawes and Bill Armitage started when they opened the first Pay Less in 1944. Since then, hands-on management has been their legacy. In 1960, Ed Hart (now chairman) was manager of Pay Less' Coos Bay, Ore., store and hired Ron Schiff, a pharmacist who is now president.

State-of-the-art computer systems also help. In 1974, Pay Less became the first drug chain in the country to install pharmacy terminals chainwide.

Its high-tech network extends to a highly automated distribution system.

To evaluate DCs

Pay Less' Wilsonville DC has a half-million sq. ft., and Woodland (near Sacramento) will have almost as much when it opens in January. Until Woodland opens, Pay Less is leasing 400,000 sq. ft. in the Portland area. When Woodland is operational, Pay Less will evaluate all of its distribution facilities and decide on future needs.

Pay Less' effectiveness at store level is sparked by sophisticated shelf management and inventory control. By the end of this year, cash registers in all stores will be on-line with a Series

Continued on page 49

CUSTOMER
SERVICE
REFUNDS · EXCHANGES
PHARMACY
TOOLS

Under K mart ownership, Pay Less has quadrupled its store expansion plans to 40 per year.

Pay Less highlights

1944: Opens first Pay Less store (in Albany, Ore.).
1967: Acquires six-store House of Values, its first acquisition.
1974: Becomes first drug chain in country to install pharmacy terminals chainwide.
1976: Buys 22 Value Giants in California.
1976: Opens 50th store.
1979: Enters Idaho market by opening four stores in Boise on same day.
1980: Buys Pay Less Oakland, enabling chain to boost store count from 89 to 144.
1982: Re-enters Nevada market with store in Elko. In 1981, Pay Less sold its two Reno stores.
1984: Opens its first downsized Key Drug in Sequim, Wash.
1984: Opens first Value Giant deep discount store in Portland—a conversion of a 30,000-sq.-ft. Pay Less superdrug store.
1984: Buys six drug/home center combos from Pay 'n Save—most of the stores are in the Sacramento area.
1985: Sells chain to K mart for $500 million.
1986: Reaches billion-dollar sales mark.
1986: Opens first Wonder World discount stores—conversions of K marts and T.G. & Y. Locations follow the Pay Less pattern—small towns.

Pay Less markets

State	Store counts
California	108 (includes 2 Key Drug)
Oregon	47 (includes 3 Key Drug)
Washington	37 (includes 3 Key Drug)
Texas	8 (Wonder World)
Idaho	7
Nevada	5
Colorado	2 (Wonder World)
Oklahoma	2 (Wonder World)
New Mexico	1 (Wonder World)

Source: Pay Less NW

Pay Less NW growth
(in millions $)

FY Ended 1/31	Store counts	Sales	Net income
1982	143	$758.5	$16.6
1983	147	784.7	19.4
1984	149	852.9	24.7
1985	162	925.0	NA
1986	183	966.0	NA
1987	218*	NA	NA

*Projected
Source: Pay Less NW

Wonder World benefits from parent co. know-how

Wonder World is a 40,000- to 60,000-sq. ft. hybrid that draws on the strengths of Pay Less drug stores, Value Giant and K mart.

From Pay Less, Wonder World borrowed core departments: health & beauty aids, housewares, hardware, candy, tobacco, sporting goods, photo and greeting cards. But no pharmacy. "We will review it again in mid-1987," Ron Schiff said, "but the cost of staffing and the other expenses are simply too high at this time."

From Value Giant, Wonder World borrowed the promotional power of dry groceries—but also added 32 ft. of freezers and 20 ft. of dairy-deli.

From K mart came the apparel department, featuring low price points and good margins.

'Opportunistic buys'

But not all of Wonder World is a knockoff. For additional promotional power, Wonder World has carved out 4,000 sq. ft. near the entrance for in-and-out items, thereby conveying price/value while maintaining good margins. Schiff calls these items "opportunistic buys." Items offered include onetime buys, closeouts, tag end and factory/surpluses. In the first Wonder World (Bozeman, Mont.), for instance, the store sold 400 tents.

At the outset, Wonder World stores will be conversions of medium-size K marts and T.G. & Y. stores, but Pay Less is not ruling out built-from-the-ground-up stores in the future.

There are three Wonder Worlds now in operation: Bozeman (former Woolco location), and Palestine and Nacogdoches (former K marts) in Texas. By the end of 1986, 11 more Wonder Worlds (all T.G. & Y. conversions) will be onstream.

T.G. & Y. plusses

T.G. & Y. sites were added to the original program because the opportunity arose after K mart had asked Pay Less to convert several K mart stores. The big plusses in taking over T.G. & Y. closures are good leases and good locations.

Next year calls for three more Wonder Worlds. This deviates from K mart's expansionist philosophy. But "we want time to study the concept and make changes where necessary," said Schiff.

To manage stores, Wonder World is transferring some Pay Less store managers and is hiring some K mart assistants.

While the long-range success of Wonder World is a question mark at this time, it does have many of the necessary ingredients: a trial-by-experience approach, willingness to make changes, a parent with plenty of expansion dollars and a wealth of merchandising knowledge, and siblings (other specialty divisions) who are anxious to contribute their expertise to help the family prosper.

Chain draws on parent in apparel rollout

Continued from page 48

1 computer to input data as part of a complete information system.

Then there are the store locations. For the most part, the chain has skirted city sites and gone into towns with less than 50,000 populations, where competition is less keen and margins are more stable. Three different size formats (21,000, 23,500 and 30,000 sq. ft.) have enabled Pay Less to tailor stores to sites.

Synergy with K mart

But it's not simply a paint-profit-with-numbers game. More subtleties are at play as Pay Less stores draw on a wealth of specialized knowledge from K mart and its divisions.

Nowhere is this more apparent than apparel, which first surfaced in Pay Less drug stores in April 1986. By the end of the year, 34 Pay Less stores will have apparel departments, and by the end of 1987, there will be a total of 75—both new and existing stores.

The size of the apparel department in Pay Less ranges from 4,000 to 12,000 sq. ft., depending on size of store and the area.

This is how K mart interfaces with Pay Less on apparel: K mart purchases the merchandise and funnels it through its California distribution system for transshipment to Pay Less' distribution centers, where it is code-tagged and shipped to Pay Less stores. Eventually, Pay Less will buy direct and ship to the stores from its distribution centers.

This kind of synergy is also working in other departments—but to a lesser degree than apparel. From Builders Square home center stores, Pay Less had added 30 sku's of hardware items. On H&BA, both K mart and Pay Less will continue their separate ways, treating each as a competitor, even as one learns from the other.

The learning process also applies to computer systems, as each division draws on innovations of the other. For example, K mart will eyeball Pay Less' new DC in Woodland because advanced technology will enable this DC to increase output by one-third to one-half over the system now used in Wilsonville.

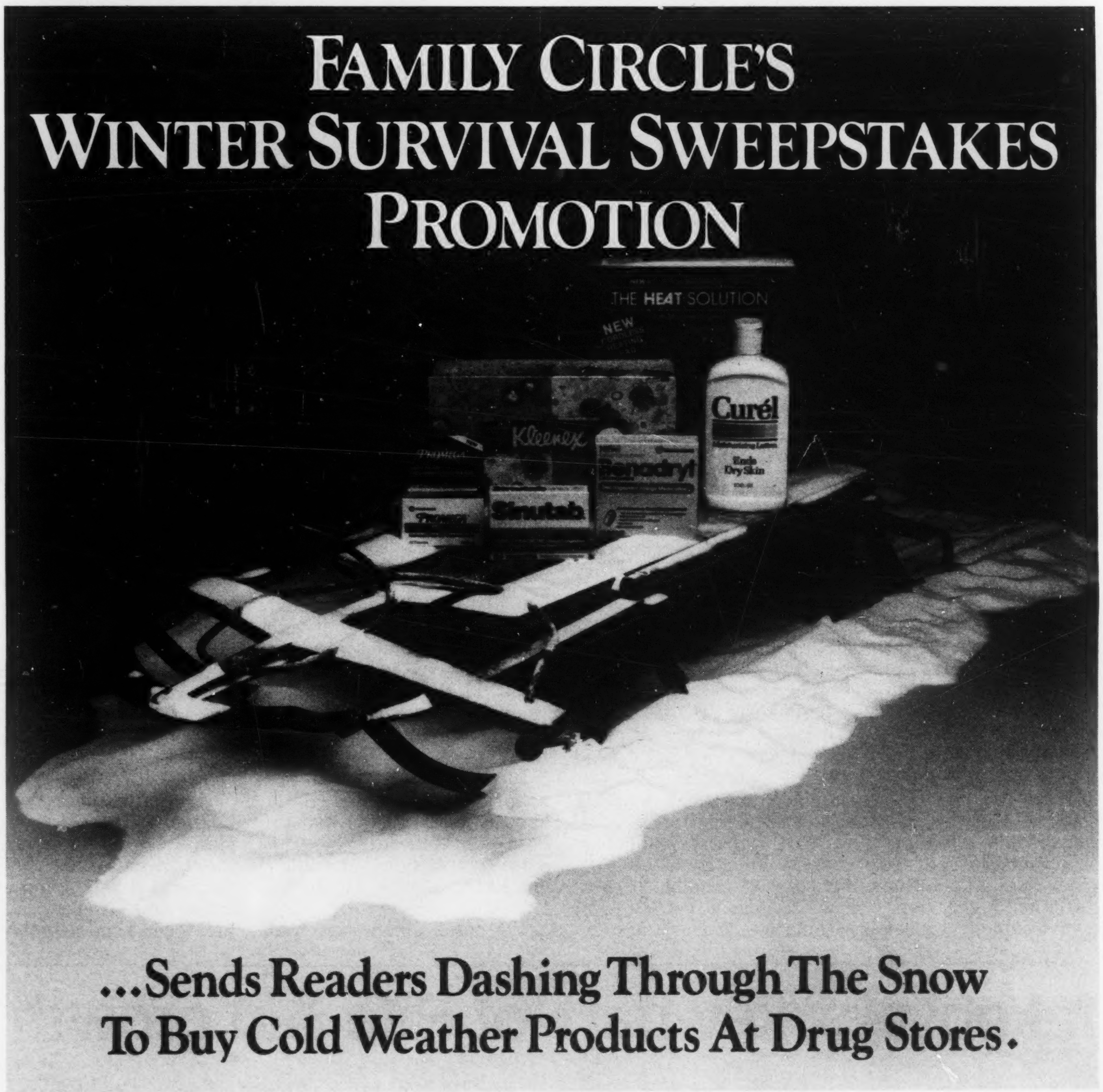
There is no combined buying, because on most products, Pay Less is big enough to land the merchandise as cheaply as K mart.

The high level of automation at Pay Less gives Pay Less one of the most sophisticated shelf management and inventory management systems in the country.

WONDER WORLD
FAMILY DISCOUNT CENTER

The Wonder World format combines many core drug store departments with apparel—but still no plans for pharmacy.

Managers:
Take quiz and earn
certificate in
Management Training
Contact: Mgmt.
Training Coordinator
Suite 535
Drug Store News
305 Madison Ave.
New York, N.Y.
10165-0079


FAMILY CIRCLE'S
WINTER SURVIVAL SWEEPSTAKES
PROMOTION
THE HEAT SOLUTION
NEW
Curél
Kleenex
Benadryl
Sinutab
...Sends Readers Dashing Through The Snow
To Buy Cold Weather Products At Drug Stores.

Cash in on the January 20, 1987 Family Circle. It's a health-oriented issue with sales-making opportunities. Set up floor displays and fill shelves with "Winter Survival" products—especially these Sweepstakes participants:
BENADRYL DECONGESTANT
CURÉL MOISTURIZING LOTION
KLEENEX® FACIAL TISSUE
PROMEGA
SINUTAB
THE HEAT SOLUTION

This annual promotion is a big reason why 18.7 million Family Circle readers shop in drug stores.* They buy participating products for proofs of purchase to send with entries.

The January 20 issue will be on sale for four weeks beginning December 23, 1986. Compelling sweepstakes announcement pages feature wished-for prizes, topped by Walt Disney World vacations.

There's even more in this Family Circle! An exciting addition is *Alive & Well*, a stunning new "magazine-within-a-magazine." It's packed with news and expert advice on diet, exercise, health, beauty. Winter remedies, too.

This incomparable "drug store issue" will stimulate sales in many departments—so get ready for action now!

*SOURCE: 1986 Spring MRI

Some of the many stores where Family Circle readers will buy Winter Survival products:
ALBERTSON'S–Spokane Division
BEL AIR MARKETS
CLARK DRUGS
FAY'S DRUG CO., INC.
K & B, INC.
SupeRx DRUGS
THRIFTY DRUG

WINTER SURVIVAL SWEEPSTAKES
FamilyCircle
THE EXPECTED ... AND SO MUCH MORE!

SPECIAL REPORT: BILLION $ CLUB

Rite Aid moves vigorously to bolster results

By Al Heller

SHIREMANSTOWN, Pa. — Rite Aid has added an entrepreneurial air to its centrally managed chain as one way to build store-level productivity.

The 1,446-store chain, which registered $1.6 billion in sales last year, is moving on several fronts to reverse a two-year earnings slide.

Tighter cost controls, antishrinkage measures and continued installations of front-end scanners, pharmacy computers and video rental departments have already shown signs of pushing Rite Aid further into the black.

Incentive plan

Perhaps the most innovative program is an incentive plan for store supervisors and store managers that enables them to earn as much as one-third of their salaries if shrink is reduced enough. Rite Aid is also considering separate incentive programs for pharmacists and distribution managers.

"Now is the time to give our managers—who are all good managers—destiny over their own earning power," executive vp Martin Grass told *Drug Store News*.

What prompted the program was a surprising rise in shrinkage losses during the second quarter ended Aug. 30. The shrink level rose to nearly 2%, Grass said, far above its historic 1.25% rate and the industry average of 1.5%.

Disruptions at stores due to installation of computers and video departments contributed to the rise in shrink, according to a Merrill Lynch report.

'Lean middle management'

The incentive programs are evidence that Rite Aid remains "a low-ego organization with lean middle management," despite rapid store and sales growth the past few years, Grass said.

The first half of fiscal 1987 shows initial results of the giant chain's multipronged efforts to grow sales and profits in a low inflation, highly competitive environment. Sales rose 13% to $841 million, and net income rose 11% to $30 million in the half ended Aug. 30, despite the rise in shrinkage.

That follows two straight fiscal years in which sales rose from $1.15 billion to $1.36 billion to $1.56 billion, but net income declined from $74.3 million to $69.9 million to $62.5 million.

For the full fiscal year 1987, Grass predicted 7% same-store sales gains. He said further that overall drug store margins are "increasing slightly with the growth of generic prescriptions and video rentals."

3 generate 51% of sales

A look at the highest gross margin categories at Rite Aid reveals that pharmacy, private label and video generate 51% of sales, up from 38% five years ago. First Manhattan analyst John Kosecoff predicts they will combine to produce 62% of sales at Rite Aid within three to five years.

In the latest full fiscal year, pharmacy made up 35.6% of sales and private label 13.8%—both rates among the highest in the retail drug industry.

Kosecoff estimates that video will account for 2% of the current year's sales, 4%-6% of pretax earnings and 15%-18% of cash flow.

This all adds up to a particularly strong position for Rite Aid to weather price wars and a sluggish sales environment, while building store margins.

Grass said that the private label sales share will grow "as new stores are added" to the 1,000-sku program. Pharmacy has already expanded to 37% of drug store sales in the first half.

Both are comparatively nonprice sensitive and help to keep Rite Aid "somewhat insulated from intensifying price competition," said Robert Roth, analyst at Merrill Lynch.

He noted, moreover, that nearly one-third of Rite Aid's pharmacies are less than four years old and will contribute more as they mature. He anticipates further pharmacy growth because about one-third of Rite Aid's planned new stores will be freestanding, where pharmacy typically accounts for a greater share of sales.

Capital expenditures

Rite Aid's record $90 million capital expenditures budget this year is another key factor bringing productivity gains and labor savings.

The purchase of VHS tapes to equip an additional 500 stores this year with an average 1,050 titles accounts for $25 million of capital spending. Rite Aid had equipped 868 stores with video rental departments at presstime, and by mid-1987 will "be in all stores we contemplate, about 1,100," Grass said.

Rite Aid is banking on the convenience aspect of its bantam format and neighborhood locations to build video business. The intent is to expose people to pharmacy during the two shopping trips each rental requires. Grass said only that "video has helped same-store sales" and "we'll be one of the strongest operators in the country."

Its frequent 99¢ rental price beats most video store competition. Its selection is far broader than 7-Eleven, which matches Rite Aid on price and convenience.

Grass said Rite Aid is experimenting with new ways to merchandise video, including cashier-operated computers to track inventory and displaying only empty boxes of titles in stock.

Video performance has been so good so far that Rite Aid had to slow the installation of front-end scanners and pharmacy computers temporarily—in order to direct capital spending funds toward video departments.

Puts technology to work

Still, Rite Aid has moved to the forefront in the use of technology to help manage stores.

The chain has equipped 590 pharmacies with computers, plans to have 800 in place by the end of fiscal 1987 and be chainwide by February 1988.

Rite Aid has also installed hand-held or slot scanners in 313 stores, plans to be in 393 by February 1987 and be chainwide by February 1989.

Rite Aid is committed to having some type of automation in all stores within 18 months, Joe Groelly, vp-information services, told *Drug Store News* recently. He said it would take the form of pharmacy computers only or pharmacy computers and scanning with communications to the headquarters computer.

Rite Aid made price removal (elimination of item price marking) and centralized

Continued on page 52

Rite Aid markets

As of May 1, Rite Aid operated 1,403 drug stores in 20 states, primarily in the eastern U.S. They were supplied by distribution centers in Shiremanstown, Pa.; Rome, N.Y.; and Nitro, W. Va. The DC to open next spring in Winnsboro, S.C., will be able to service 500 stores.

Pa.	259	***Mass.***	38
N.Y.	228	***Conn.***	35
N.J.	118	***Ky.***	29
N.C.	105	***Tenn.***	28
Md.	102	***Ga.***	28
Ohio	102	***Del.***	15
W. Va.	96	***R.I.***	15
Mich.	77	***N.H.***	11
S.C.	61	***Ind.***	6
Va.	44	***Vt.***	6

In addition, 27 Encore Books discount bookstores include 20 in Pennsylvania, six in New Jersey and one in Delaware.

Also, 58 American Discount Auto Parts stores include 34 in Massachusetts, seven in New Jersey, six in Rhode Island, four in Connecticut, four in New York and three in New Hampshire.

Rite Aid highlights

1981: Buys Fay's southern division stores.

1982: Readies first Drug Palace test.
Opens 1,000th Rite Aid in Durham, N.C.

1984: Acquires Encore discount book chain and ADAP auto parts chain.
Pharmacy computer and scanner installations hit stride.

1985: Sells Circus World toy chain and closes Heaven variety stores.

1986: Names Martin Grass first executive vp in history of company.

Breaks ground on 265,000 sq. ft. distribution center in Winnsboro, S.C., which will be able to service 500 stores in the Southeast.

Acquires Harris Drug to help dominate Charleston market.

Stockholders authorize doubling of common shares to give extra operations and acquisitions flexibility.

Rite Aid performance trends

(in millions $)

	Fiscal 1982	1983	1984	1985	1986	1987[A]
Sales	$871.6	$1,003.3	$1,149.5	$1,360.5	$1,564.1	$840.8
Net income	39.9	55.0	74.3	69.9	62.5	29.5
Retail stores	963	1,055	1,147	1,351	1,485	1,516

[A] Six month figures for period ended Aug. 30, 1986. Fiscal 1987 ends March 1987. Store counts include 58 ADAP stores and 32 Encore stores.

Source: Rite Aid

Takeovers key part of Rite Aid growth

An ongoing strategy at Rite Aid has been growth by acquisition. About one-third of its store base is acquired stores. Rite Aid's latest purchase, Harris Drugs, marks the Southeast as one area of targeted expansion.

As an example of how quickly Rite Aid brings acquired stores into the fold, Harris was bought in September and reset, remerchandised and given new signage by late October. Executive vp Martin Grass said most will get video rental departments.

The buyout also enabled Rite Aid to outstore competitors in Charleston, the third largest market in South Carolina, as it eyes much of its new store growth in the corridor from Virginia to the Florida Panhandle.

DC under construction

Indeed, construction on Rite Aid's new 265,000-sq.-ft. distribution center in Winnsboro, S.C., is on target, with plans to ship goods by June, Grass said.

The facility will have the capacity to service 500 stores and raise the chain's warehouse capacity to 2,000 stores. "We're right where we have to be," Grass said.

The DC will bring efficiencies in shorter runs and faster turnaround in servicing stores primarily in South Carolina, North Carolina, Tennessee and Georgia. That will leave the DC in Nitro, W. Va., which is currently servicing these markets, free to meet expansion needs elsewhere.

Remodeling ongoing

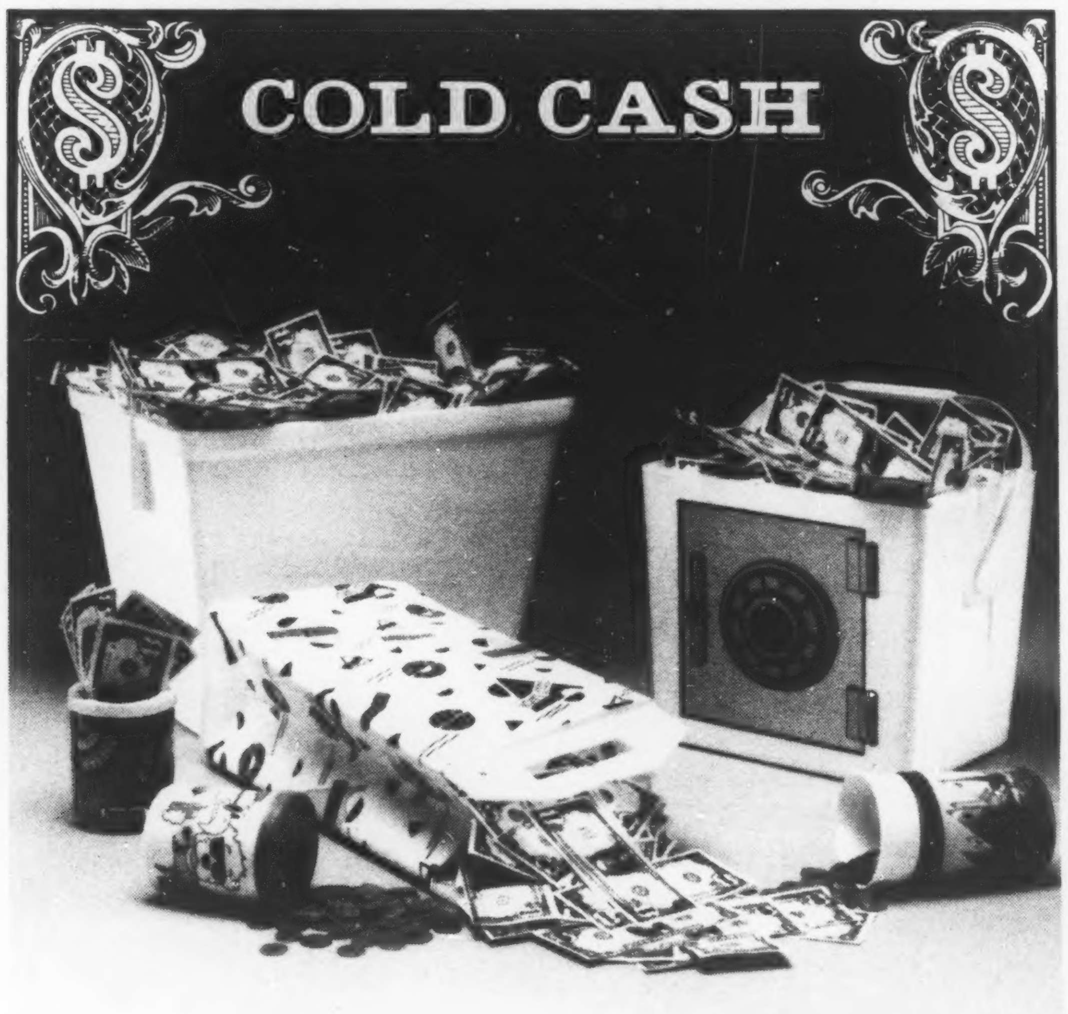
According to Merrill Lynch analyst Robert Roth, Rite Aid aims to add 10% in retail square footage annually through new store openings and acquisitions and to remodel more than 5% of its store base each year in order to keep stores current.

Coupled with the new store opening program, chairman Alex Grass told a Merrill Lynch audience earlier this year, "we have a systematic plan to expand and relocate every store that is smaller than 6,500-sq.-ft. or is located in less than a 100% location. Last year, 57 stores were either relocated or expanded and 35 stores will be upgraded this year. In every instance, we are able to generate greater sales solidifying our position in the market and subsequently enhancing overall profitability."

WHERE THE
BEST COMES TO LIGHT™

SYLVANIA
Long Life White
Soft White Bulbs
3 WAY
Reflector Flood

SYLVANIA GTE



If you're only selling one style of foam cooler, then you're not getting your money's worth.

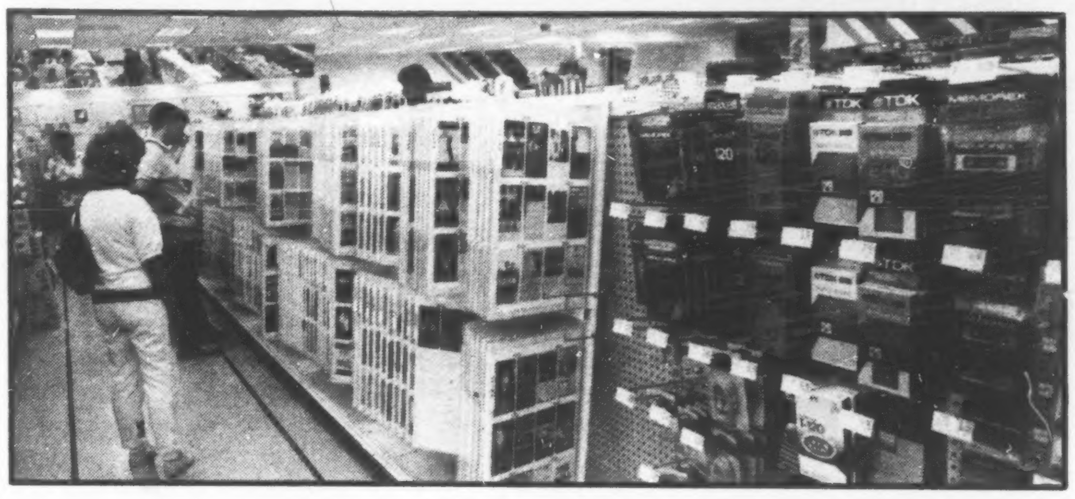
For the same investment, you can sell four styles of foam coolers and 3 styles of beverage holders – all from one supplier. And you know from experience that a wider range of products means increased store sales.

Give us a call. It'll mean more cold cash for you.

SOUTHWEST
FOAM
MOLDING
INC.

P.O. Box J Waxahachie, Tx. 75165
(214) 937-6512 Tx. 1-800-441-1027
National 1-800-527-2648

SPECIAL REPORT: BILLION $ CLUB



Rite Aid has slowed new store growth plans this year so it could direct more capital expenditures toward video rental departments and in-store computers.

Video, computers head up efforts

Continued from page 50

price control its two main criteria for a front-end data management system.

The integrated Rite Aid system links pharmacy computers with its front-end scanning systems. Pharmacy software is compatible with front-end programs, enabling data to be brought from Rx to the front-end and reside in the front-end system in a separate file. Rx and front-end data can be transmitted together to the headquarters IBM mainframe with a single phone call from the host.

Groelly expects scanning eventually to add 1 to 1.5 percentage points to net earnings, as it helped supermarkets, through such benefits as price control and price removal, shrink control and inventory control.

By the time Rite Aid is done equipping stores with computers, it will have spent a total of $30 million to $35 million, or about $20,000 per store, Grass said.

Drug Palaces offbeat 1 way

Just a handful of conventional Rite Aids have been converted into deep discount Drug Palaces. It's Rite Aid's way of combatting deep discounter competition.

Rite Aid currently operates 13 Drug Palaces, including some conversions, up from four a year ago, and will open its second in Philadelphia by the end of fiscal 1987 to butt heads with another deep discounter. Seven are 15,000-20,000 sq. ft.; six urban stores are 7,000-9,000 sq. ft.

One of the most unusual aspects of the Drug Palace format is inclusion of Rite Aid private label—since national brands are the key products at deep discounters.

The private label helps to build store margins, of course, but without the risk of devoting a lot of space to unrecognized products. Since Rite Aid sells its private label to supermarkets, convenience stores and drug stores, the brand has high recognition and a good following, said Grass.

The private label's high visibility also limits Rite Aid's risk of incurring consumer wrath over its operation of two store formats with different pricing structures, sometimes in the same neighborhood. Drug Palace's sales of the Rite Aid brand isn't a tipoff to consumers of Rite Aid ownership.

PROCTER & GAMBLE
NOTICE TO OUR CUSTOMERS

ATTENTION STORE MANAGER:

We offer Cooperative Merchandising Agreements to all retailers in the U.S.A. Some Agreements are annual—some are short term.

Payments are made for print or electronic media featuring display, and consumer directed promotion. Product coupons and samples are distributed in stores in various markets at various times. Details are set forth in specific agreements. Proof of performance (e.g., tear sheets) and proof of delivery (wholesaler's invoices) are required for some offers. Also, we offer display material, newspaper proofs, etc. to assist you in merchandising our brands.

The above promotional offers are practical and usable by all retailers regardless of size. You may now be performing under an agreement and payments are being made to you or to your headquarters.

If you are not performing or receiving such promotional offers and would like to do so, send your name, address and telephone number to Procter & Gamble, Box 162, Cincinnati, Ohio 45201 and our sales representative will contact you. Please specify, if possible, the Company Division in whose brands you are interested.

Bar Soap & Household Cleaning Products Division
Beauty Care Division
Beverage Division
Food Products Division
Health & Personal Care Division
Packaged Soap & Detergent Division
Paper Products Division
Vidal Sassoon

Peoples reorients itself in transitional period

ALEXANDRIA, Va. — For Peoples, 1986 has been a year of reversal. Some operating problems plagued the chain and hurt profits, after it tallied its strongest year ever in 1985.

No one appears worried, however, or thinks that Peoples won't remain one of the major retailing forces in the industry.

Imasco officials who visited Peoples recently told analysts that their corporate fiscal 1987 results will not include a performance recovery of the 800-plus-store chain. They're being patient, like a watchful parent, giving Peoples management two to three years to bring profits back to the fiscal 1985 level, stock analysts told *Drug Store News*.

'Lost focus'

Sources close to Imasco related a feeling by the parent that Peoples executives "lost their focus on basic drug store management." They reportedly felt that Peoples has spent too much time trying to develop ancillary businesses such as home health care centers, optical stores, Hardee's food service in drug stores and Bud's deep discount stores.

It's arguable, however, that Peoples is seeking to position itself as a broad health care provider—with eye care and home health care stores—in order to fortify consumers' perception of the drug stores as a preferred place to buy health care needs. After all, the health image is what keeps drug stores distinctive in the marketplace.

Moreover, Sheldon "Bud" Fantle, chairman, president and ceo of the $1.3 billion (annual U.S. sales) chain, is regarded as creative, entrepreneurial and willing to take a chance to build something new.

Peoples executives have told *Drug Store News* that Fantle is an "innovator who will try most things. That's his style."

Grown and experimented

Under Fantle's influence for more than a decade, Peoples has grown dramatically to more than 800 stores in 15 states and the District of Columbia and has experimented with several different business formats that augment the drug store operations.

But when problems compounded this past year—largely in the mid-Atlantic division, which accounts for about half of Peoples stores—Fantle's team had to move fast to get the chain back on track. It's not there yet.

Peoples is producing a 5% same-store sales rise so far this fiscal year, analyst David Cohen of McNeil Mantha said. In the first quarter ended June 30, however, Peoples' operating earnings fell below the year-earlier level. Even so, profitability was better than in the quarter immediately preceding it, and Imasco announced performance was "in line with expectations for overall improvement in fiscal 1987."

Imasco reported further that during that quarter inventories were reduced by about $27 million—indicating the extent of the problem stemming from the rocky startup of a 500,000-sq.-ft. distribution center in Fredericksburg, Va.

Performance in the second quarter ended Sept. 30 was also down, with sources laying blame on failed software at the new DC.

"Merchandise sat, though the computer said it moved, and caused poor use of cube space on the trucks," a Peoples executive said.

Paul Paré, Imasco chairman and ceo, said the DC will be cleared of backed up merchandise, primarily health and beauty aids, by the end of fiscal 1987 in March.

Peoples has pinned high hopes on the DC to service as many as 400 stores from Pennsylvania down to North Carolina and as far west as West Virginia. The facility is expected to save 30% in labor costs and pay back the $24 million investment in seven years.

Some analysts predicted that full fiscal year 1987 operating earnings would show improvement, perhaps to the $50 million range.

Goal upset

What could have been a dream come true for Peoples has turned into a short-term nightmare, and disrupted the chain's progress toward achieving Fantle's 3-2-1 plan: a 3% net-to-sales ratio, $2 billion sales and 1,000 stores.

How far away is Peoples? It has to approximately double last fiscal year's 2.5% operating earnings ratio in order to achieve its 3% net margin goal.

It has to raise annual sales from last year's $1.3 billion level.

It has to add or acquire more than 150 new stores.

That probably won't happen right away.

Training its focus back on existing stores, Peoples is said to be cutting back on new store additions from 60 in fiscal 1986. Sources expect the chain to maintain its remodeling schedule of about 130 a year, because that's a relatively easy way to drive sales and profits gains.

Some might consider that a welcome respite from the approximate 45% expansion in new stores that occurred from early 1984 to early 1986—from 575 stores to 832. That included the takeover of 134 Rea and Derick stores, the introduction of the Eye City optical center, the startup and growth of Bud's deep discount stores and expansion of home health care centers.

One marked reversal of strategy appears to be Peoples' recent abandonment of the Florida market. When Peoples sold the Shoppers Drug Mart stores it was operating in Florida to Jack Eckerd Corp. this fall, it signalled an apparent change of heart.

Peoples had managed those stores for parent Imasco since May 1985, and they were to be a cornerstone of a major push into promising parts of Flori-

Continued on page 54

Peoples highlights

1976: Merges with Lane Drug to create 360-store network.

1980: Opens first home health care center in Bailey's Crossroads, Va.

1983: Installs first pharmacy computers.
Buys eight Sav-A-Lot stores and 37 Haag stores.

1984: Acquired by Imasco.
Buys 134 Rea and Derick stores for $85 million.
Readies to debut Bud's deep discount format.

1985: Takes over operation of Shoppers Drug Mart stores in Florida.
Opens computerized distribution center in Fredericksburg, Va., to service mid-Atlantic region, its largest.
Starts to place Hardee's franchisees in drug stores.

1986: Names David Eisenberg executive vp and coo as part of top-management restructure.
Opens Eye City self-service optical center.
Sells Shoppers Drug Mart stores in Florida to Eckerd.

Peoples Markets

(As of 3 31 86, end of latest fiscal year)

Alabama	6
District of Columbia	42
Florida	31*
Georgia	71
Iowa	20
Illinois	17
Indiana	85
Kentucky	3
Maryland	94
North Carolina	16
New York	2
Ohio	101
Pennsylvania	178
Tennessee	1
Virginia	159
West Virginia	6

Source: Imasco Limited

*Peoples recently sold the Shoppers Drug Mart stores in Florida to Jack Eckerd Corp.

Peoples performance trends

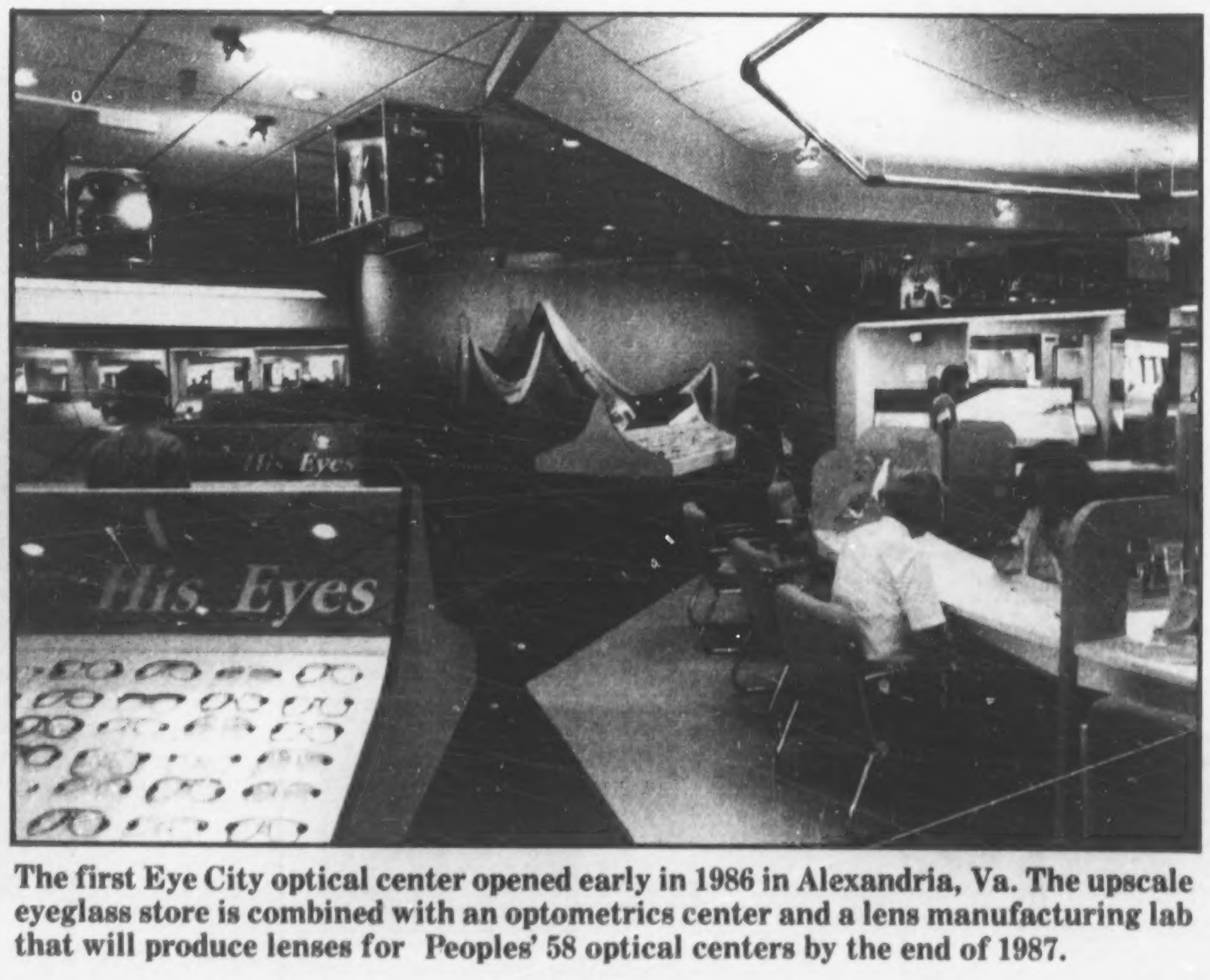
(in millions $)

	FY end 1982	1983	1985	1986
Sales	$690	$790	$1,030	$1,330
Operating profits	25.5	29.3	47.7	40.1
Stores	527	554	758	832

Source: Imasco Limited

Performance for 1984 wasn't reported separately because Peoples was acquired by Imasco April 1, 1984, and the fiscal year was restated to reflect full-year results. All Peoples results are in U.S. dollars.

Cosmetics is getting a facelift at Peoples with a new planogram that substituted about 500 new sku's for a like number of old ones. Total sku's are about 2,200. Video terminals and beauty consultant programs are being used for image.



The first Eye City optical center opened early in 1986 in Alexandria, Va. The upscale eyeglass store is combined with an optometrics center and a lens manufacturing lab that will produce lenses for Peoples' 58 optical centers by the end of 1987.

Peoples' innovations enhance value-added image

Continued from page 53

da. Local market sources said, however, that the stores "struggled for identity" and suffered from an unfocused pricing strategy.

Neither Peoples nor Imasco has indicated whether this means Peoples' mid-Atlantic reach will be permanently blunted at the Georgia line, or whether Peoples would refocus on the state in a different way.

A high-level executive at a major competitor of Peoples said those same types of problems plague the chain in many of its markets. "They are one of the highest-priced drug chains and particularly vulnerable to discounting. And while they're decentralized from their parent, they have a lot of headquarters staff. They're not streamlined," he said.

That vulnerability to discounting has hurt Peoples, particularly in the metro Washington, D.C., area. Dart Drug Stores, which is heavily outstored, is just about equal in market share leadership. Both have an approximate 25% share.

Price wars between Safeway and Giant Foods, which operate pharmacies, are training customers even more to buy on promotion.

All this faces Peoples with a lady or the tiger question. Should it discount more to hold onto market share, or maintain price and margin integrity and risk losing shoppers?

Surveys shoppers

One of Peoples' strategies is to survey shoppers once a month. "Some chains are so numbers- and ROI-oriented that they forgot customers are king. It's time to be innovative," a Peoples merchandising executive told *Drug Store News*.

To him, it's important to give consumers value-added perceptions. In cosmetics, for instance, video terminals and beauty consultant programs are being used to expand cosmetics from its current 4%-5% share of store sales to the 7% range.

Peoples got its biggest cosmetics splash when a show it hosted at the Washington Convention Center drew 50,000 people, the majority women, earlier this year. Peoples will run its Beauty Expo again in April in both Atlanta and Washington, D.C.

Other diverse ideas include adding 4 ft. of gourmet chocolates to lend upscale flavor, and doing unusual cross merchandising, such as private label diet aids next to hair coloring, to sway women shoppers concerned about their total appearance.

Pharmacy sales, helped by continued rollout of Rx computers, has risen to the 30% share of sales range.

Peoples has eliminated several laggard sundry categories to make room for faster growth areas such as candies and snacks, back-to-school and home office supplies, and household chemicals.

Constant promotions keep the high traffic-yielding photofinishing business a key part of Peoples' mix.

Peoples has so far opened nine Bud's deep discount stores ranging from 14,000 to 36,000 sq. ft. Eight have pharmacies, which account for less than 3% of each store's $4 million to $5 million annual volume.

Peoples moves people

When David Eisenberg was named executive vp and coo at Peoples earlier this year, it was the key move in a top management restructure meant to right the chain and set up a team into the 1990's.

He has been driving toward the following goals:

- Complete chainwide installation of pharmacy computers within two years, up from about 300 installations currently.
- Test scanning in 1986 and rolling it out as soon as practical.
- Upgrade all distribution centers to help alleviate excess inventories.

In other top-level appointments, Peoples took a rare step outside to bring in Richard Barker as senior vp-finance. He replaced Robert M. Arensmeyer, who retired.

Barker was executive vp and chief administrative officer at May Department Stores the past three years, and served at Wickes Cos. from 1975-83.

In a related move, Peoples promoted Jeffrey Fantle to senior vp-operations for all retail drug chains. He had been president and coo of the Lane Drug division since 1980.

He replaced Nicholas Simon, who retired.

In addition, Fred Edwards, the former president and coo at Reed Drug, was promoted to senior vp-marketing, Eisenberg's former post.

William Eagleson, vp-merchandising at two Peoples divisions, was named senior vp-distribution and merchandise control.

Leonard J. DeMino was named to the new post of corporate vp-pharmacy.

Joseph Pollard was named senior vp-corporate relations and advertising.

Other changes included the naming of John P. Manton to the newly created post of senior vp-corporate development and real estate, responsible for all specialty retailing, subsidiary and experimental operations.

David Forman was named senior vp-human resources. James Schwarz was named senior vp-legal.

The variety of promotions brings field people into corporate as a way to energize headquarters and keep top management in touch with needs of stores and consumers, a Peoples executive said.

"There are no cash registers at headquarters," he added.

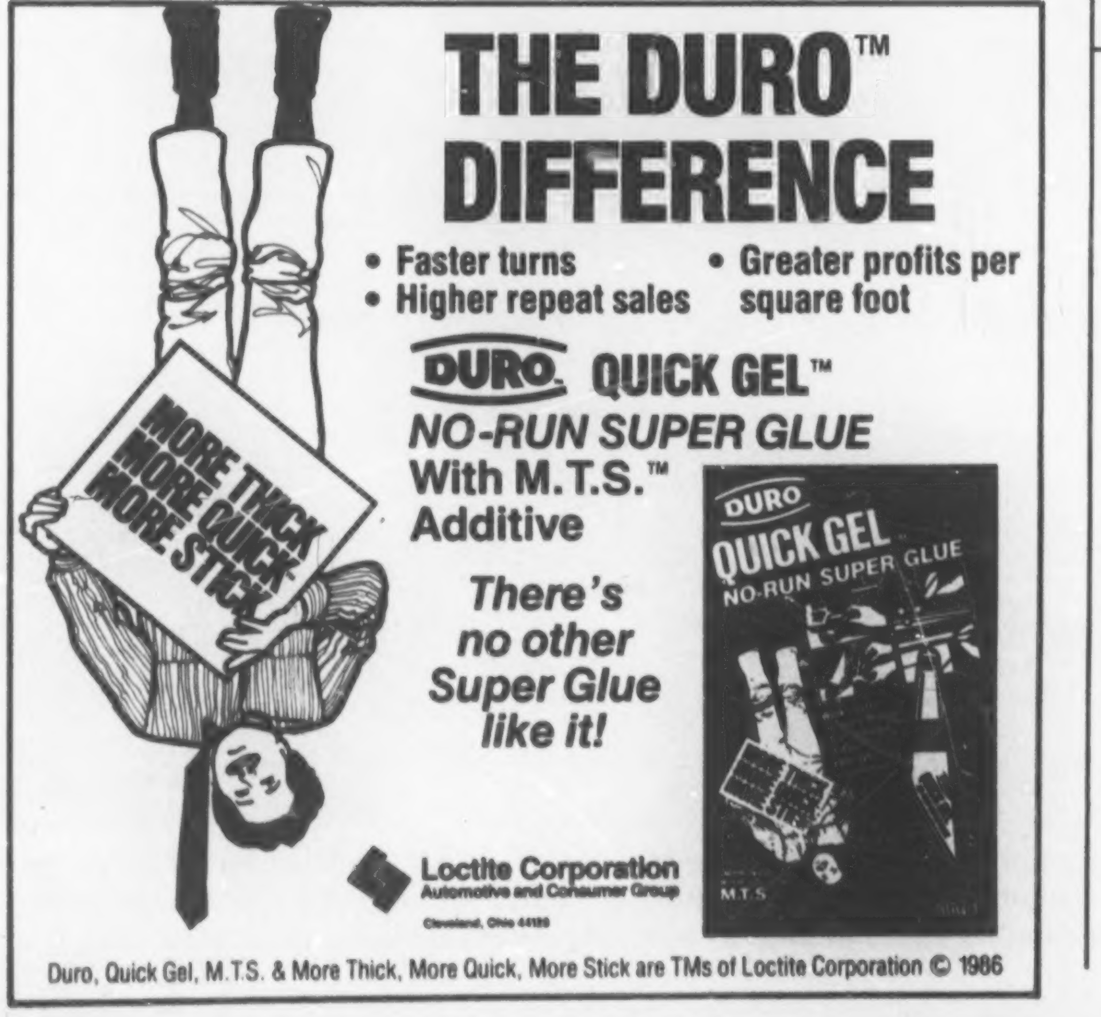
Quick pick up.

Cordless, lightweight and with their own wall-mounted recharging stands. Your customers will quickly pick them up.

EUREKA Quick Up.™

WHERE THE BEST COMES TO LIGHT™

SYLVANIA GTE


THE DURO™ DIFFERENCE

- Faster turns
- Higher repeat sales
- Greater profits per square foot

DURO QUICK GEL™
NO-RUN SUPER GLUE
With M.T.S.™ Additive

There's no other Super Glue like it!

Loctite Corporation
Automotive and Consumer Group
Cleveland, Ohio 44128

Duro, Quick Gel, M.T.S. & More Thick, More Quick, More Stick are TMs of Loctite Corporation © 1986

America Is Seeing It Our Way!

MAGNIVISION
READING GLASSES

For full details about our exciting new "total program," write or call:
Burt Schreiber today.
Magnivision, Miami, FL 33152-0817
1-800-327-7238

Pharmacists join the HMO revolution

In New York, HMOs are trying to entice people to join them with sweatbands, pencils and sweatsuits. Local TV stations, radio stations and newspapers are enjoying a burst of advertising revenues. And the city of New York had to publish a 32-page booklet to help city employees make sense of all the new plans.

New York recently decided to encourage the entry of for-profit HMOs into the state; in the last year alone, 10 new plans have been certified. In other parts of the country, HMOs are mushrooming at a similar rate, and when that happens, local pharmacists have to sit up and pay attention.

The lesson learned by many pharmacists in the hottest HMO markets in the country is that HMOs will not go away. Many of them offer prescription drug benefits either as part of the basic plan or as an option. For that reason, pharmacists may have no choice but to join the cost containment revolution.

Complete for blocks

While drug stores have always competed for individual customers, now they must compete for large blocks of customers who are aligning themselves with local HMOs. Medicare beneficiaries are also being funneled to HMOs, which is another good reason to get involved.

What happens when the HMOs move in? Those who have been there say you can expect downward pressure on pricing, and perhaps more increased traffic. That may lead to increased revenues from the sale of nondrug merchandise. The trend in HMOs is away from in-house pharmacies and toward contracting with existing pharmacies. In some cases, HMOs sign exclusive agreements with the large drug store chains, but in many cases they seem open to contracting with several providers.

About 9% of the U.S. population is currently enrolled in HMOs, and the upward trend shows every sign of continuing.

One development that is distressing to pharmacists is the move by HMOs to ask for a bid on capitation rate. This puts a lot of the burden of risk on the providers—something HMO administrators believe is desirable. Commonly, however, HMOs and pharmacists will be negotiating an average wholesale price plus a percentage and perhaps a dispensing fee. Many HMOs require a co-payment from members in order to discourage overutilization; however, in very competitive areas, drug stores have been known to drop the co-payment requirement to attract customers.

There is also a great deal of talk about how HMOs will be exercising more and more control over providers, including pharmacists, through utilization review and generic substitutions, but so far that is the exception rather than the rule. HMOs are also showing some signs of being sweet on mail-service drugs to further reduce costs.

About 9% of the U.S. population is currently enrolled in HMOs, and the trend shows every sign of continuing. According to Interstudy in Excelsior, Minn., a clearinghouse of information on HMOs, by the end of 1985 there were 21,051,657 people enrolled in HMOs, a 26% increase over 1984.

Andrew Nighswander, manager of health care policy for the Arthur D. Little consulting firm, says that we can continue to expect 20%-25% increases in enrollment until 1990.

Even the government is diverting its Medicare and Medicaid beneficiaries toward HMOs. By the end of this year, 1.6 million beneficiaries, or 5.2% of the Medicare population, will be obtaining care from a prepaid health plan. About a million beneficiaries are part of a new Medicare program that does away with individual claims and pays an annual fee to the HMO. Under the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) program, the government pays HMOs 95% of Medicare's local customary costs for care of a beneficiary. The government is guaranteed a 5% savings, and the new program also gives the beneficiaries more services than are ordinarily covered by Medicare. For instance, prescription drugs and eye care are not covered by Medicare, but these services are now available to those beneficiaries who become members of HMOs. Enrollment is currently voluntary. About 146 HMOs are approved for the program, and 39 more applications are pending.

Way to spread burden

"Supplemental insurance, called MediGap, was available to beneficiaries, but it was fairly expensive. Medicare was in serious trouble of running out of money," said Marla Kilbourne, prepaid health care specialist for the Health Care Financing Administration (HCFA). "So this was a way to place some of the burden on the health care industry to hold down costs and also to give the beneficiaries additional benefits at less cost."

The new Medicare program is expected to be a boon to those who provide ancillary services like prescription drugs, which have not in the past been covered by Medicare.

While the Medicare program is voluntary, some

Continued on page IP11

Action shifts from staff-model HMOs to IPAs

Continued from page IP9

states, like Arizona, California and Minnesota, are mandating that Medicaid beneficiaries enroll in HMOs in certain areas. About 900,000 Medicaid beneficiaries are currently enrolled nationwide, according to Ed Neuschler, senior fellow in health policy studies for the National Governors Association. He estimates that the total Medicaid population is 16 million-18 million. Medicaid programs have agreements with HMOs or some other cost containment program in 30 states.

Persuading Medicaid beneficiaries to go to HMOs is not easy, Neuschler points out, because there are not the same financial incentives as there are for the rest of the population.

Staff models and IPAs

Independent pharmacists and chain drug stores have always considered in-house pharmacies to be the main threat posed by HMOs. However, the staff-model HMOs, which hire their own staff, build their own centers and are most likely to have in-house pharmacies, have fallen out of favor. The IPA (Independent Practice Association) model accounts for most of the new HMOs because of the lack of capital expenditures required and because of a recognition by administrators that many consumers prefer to go to their own doctor or another doctor of their choice.

HMO enrollment by state
Top 10

1 Calif.	6,191,420
2 N.Y.	1,510,945
3 Mich.	1,056,781
4 Minn.	985,491
5 Ill.	962,055
6 Ohio	902,719
7 Wis.	900,657
8 Mass.	878,542
9 Fla.	768,571
10 Pa.	668,756

*Interstudy, Excelsior, Minn. Dec. 1985

"The staff-model pharmacy as a direct competitor is not where the major action is," says Nighswander of Arthur D. Little. "That has fairly well peaked. The biggest action is in contracts with IPAs that offer pharmacy services."

Many of the drug chains are now scrambling for contracts and in many cases have succeeded in winning agreements as the exclusive or nonexclusive providers of pharmacy services. Walgreen would not discuss its HMO business with *Drug Store News*, but Stanley Kohn of SupeRx said that "SupeRx has aggressively gone after HMO agreements in those areas where we have stores."

Chains must adapt

"HMOs are increasingly important to pharmacy, and it's another type of delivery system chain stores will have to adapt to."

SupeRx has negotiated exclusive provider agreements with Humana Care Plus, Maxicare and Health America in some areas.

Kohn said SupeRx prefers to negotiate on fee and price rather than on a capitation rate. Kohn said the charges to HMOs for pharmacy services are comparable to other third-party programs. However, because of increased traffic the stores "do more up-front business."

However, Judy Whalen of Met Discount Drug in Florida characterizes charges to their HMO customers as "way below third-party programs."

"We're not making any money from them, and I don't see them as an asset to the industry," she said.

"We're not happy with it, but we have to live with it."

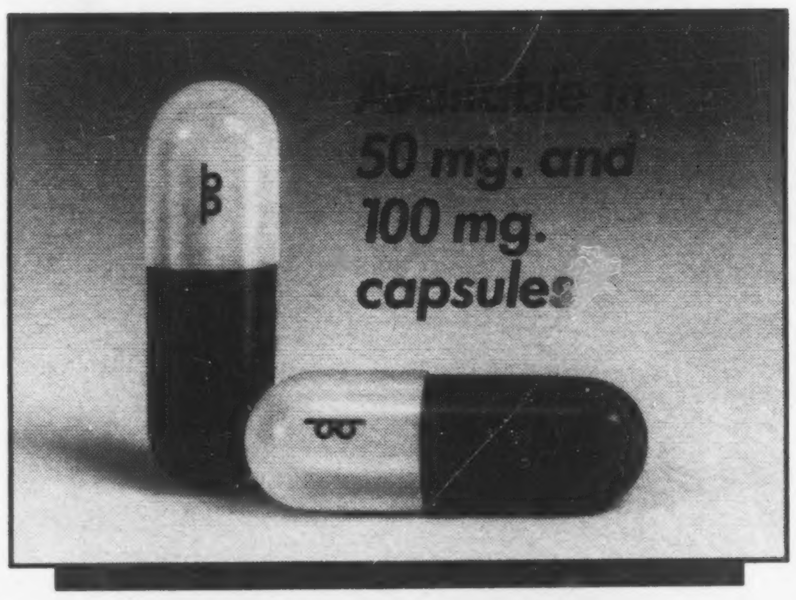
PMA report

"Traditionally, HMOs have achieved savings by reducing inpatient, and, to some extent, specialty services," according to a report released by the Pharmaceutical Manufacturers Association early this year. "However, as the environment becomes more competitive, they are focusing on lower priced, high volume items such as ancillary services and pharmacy.

"HMOs are becoming more active in controlling their pharmacy costs in response to competitive price pressures," the report continued. "For example, most plans require pa-

Continued on page IP13

coming soon...
meclofenamate sodium
from Bolar



the Bolar generic for meclomen®

bioavailability
data available
upon request

ask your wholesaler or distributor, or call Bolar

BOLAR
Pharmaceutical Co., Inc.
130 Lincoln St., Copiague, NY 11726 (516) 842-8383
Manufacturing facilities located in:
Copiague, NY and Humacao, Puerto Rico

© 1986 Bolar Pharmaceutical Co., Inc.

Meclomen® is a registered trademark
of Parke Davis.

PAIX SUR LA TERRE
HERPECIN-L®
Cold Sore Lip Balm. "It Works!"
Write: CAMPBELL LABORATORIES, INC.
P.O. Box 812-A, FDR, NY, NY 10150

HMOs responding to competitive pressures

Continued from page IP11

tient cost sharing, usually in the form of flat co-payments per prescription. Most plans are becoming more aggressive about affecting physicians' prescribing behavior through education, or through financial incentives and enforcement of drug formularies, generic substitution, and therapeutic substitution. These efforts are often assisted by drug utilization review, which is made possible by the advent of more sophisticated automated data systems and the employment of professional pharmacy managers."

The news is not all bad, though, according to the PMA report, because HMOs clearly favor therapeutic alternatives to replace surgery and stays in intensive care units. But the PMA report warns manufacturers that "retail pharmacies contracting with HMOs will also attempt to negotiate lower prices with their own suppliers in order to compete for HMO buyers."

Pharmacists', chains' fears

Probably one of the greatest fears of independent pharmacists and drug store chains is that the largest HMOs will enter into contracts with the largest national or regional chains, leaving everyone else out in the cold. Some HMO adminstrators have publicly expressed interest in signing such large scale agreements with providers of health care services. In fact, HMOs themselves are afraid that unless they are national in scope they will lose out in the competition. Blue Cross, Blue Shield is building a national network of HMOs and has sponsored 90 plans so far.

On the provider side, the National Association of Retail Druggists (NARD) is organizing pharmacists into a national network called RxNet. Max Richburg, executive officer of NARD, says pharmacy services administrative organizations (PSAO) are lacking in the following: Maine, Vermont, Delaware, Mississippi, Hawaii, Alaska, Idaho, Montana, Wyoming, North Dakota, South Dakota, Washington, D.C., and possibly Nevada. Richburg said NARD is trying to stimulate the formation of PSAOs in those areas so that the network will be complete. He added that he hopes to begin marketing RxNet for national and regional health care programs in 1987.

Nighswander is one who doubts that HMOs will lock themselves into national contracts.

A local enterprise

"I have a personal bias about that," said Nighswander. "Anything that has a major service component depends on a good, strong local relationship with providers. Health care is stll a local enterprise."

Nighswander explained that timeliness and assistance are easier to guarantee on the local level and believes that HMOs will negotiate with national chains just to establish a ceiling price and then will "go out locally and try to beat the price."

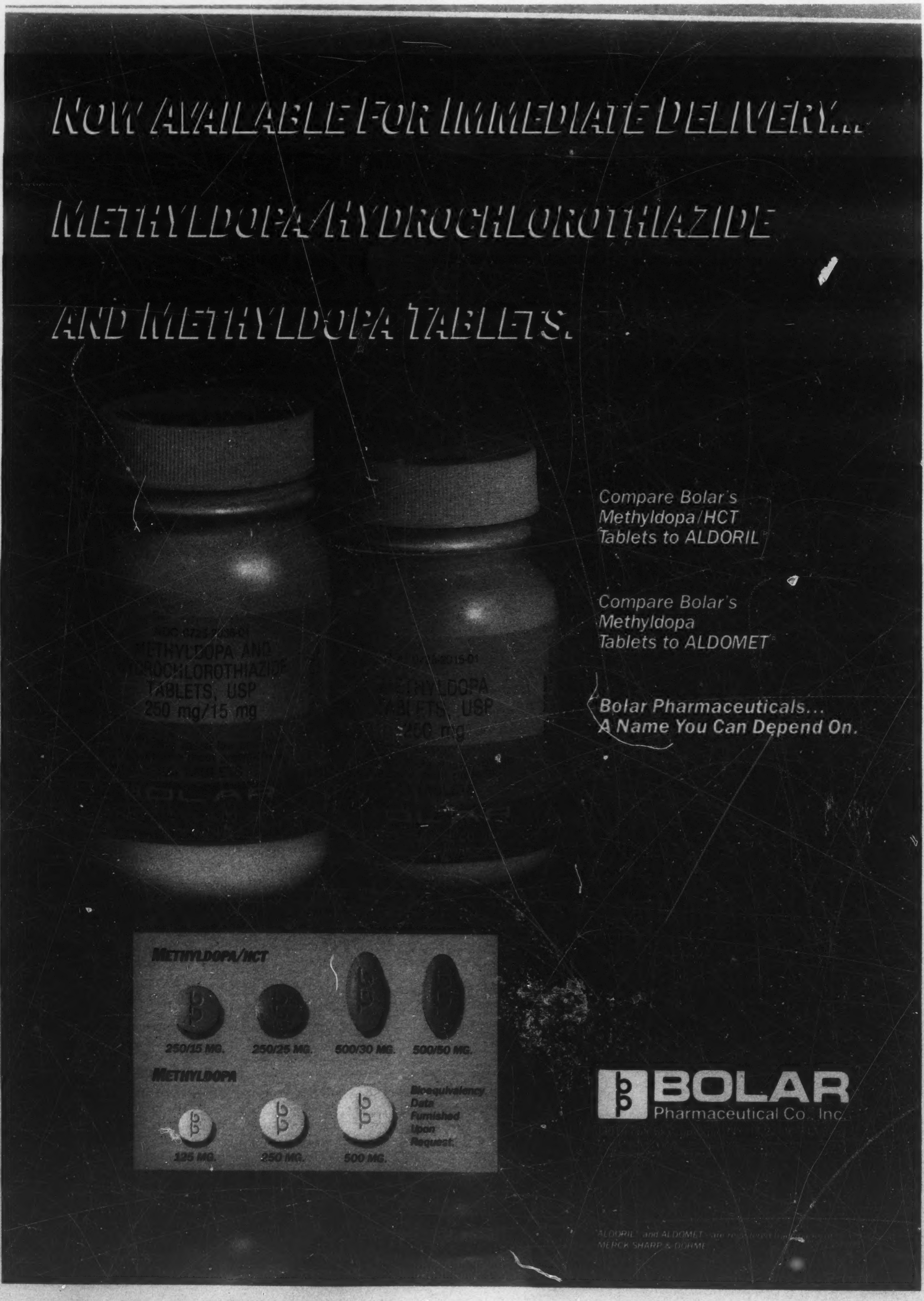
The PMA's report also noted that convenience and ability to attract additional HMO members may "dictate the use of multiple contracted outlets," and it may further be to the HMOs' advantage to keep several contractors in the game so that they will be more willing to negotiate on price.

Richburg of NARD believes that so far neither the independent nor the chain store pharmacist has benefited from the cost containment drive of the 1980's. He believes that the only clear winner at this stage are mail-service programs.

Breakdown of HMO by type

Independent practice association	245
Staff model	64
Group practice	81
Network (more than one group practice)	90
	480

*Interstudy, Excelsior, Minn. Dec. 1985


NOW AVAILABLE FOR IMMEDIATE DELIVERY...

METHYLDOPA/HYDROCHLOROTHIAZIDE

AND METHYLDOPA TABLETS.

Compare Bolar's
Methyldopa/HCT
Tablets to ALDORIL

Compare Bolar's
Methyldopa
Tablets to ALDOMET

Bolar Pharmaceuticals...
A Name You Can Depend On.

METHYLDOPA/HCT

250/15 MG. 250/25 MG. 500/30 MG. 500/50 MG.

METHYLDOPA

125 MG. 250 MG. 500 MG.

Bioequivalency
Data
Furnished
Upon
Request.

BOLAR
Pharmaceutical Co., Inc.

ALDORIL and ALDOMET [illegible]
MERCK SHARP & DOHME

FRIEDE AUF ERDEN

HERPECIN-L®

Cold Sore Lip Balm. *"It Works!"*

Write: CAMPBELL LABORATORIES, INC.
P.O. Box 812-A, FDR, NY, NY 10150

1/6/87 C5150-2

Anti-
revie

J0269340 DR
KEVIN KENDRICK
CONGRESSIONAL INFO SVC 1F7
4520 EAST WEST HWY STE 800
BETHESDA MD 20814

Special Report:
'87 Industry
orecast—page 10

Merchandising Trends:
Survey finds retailers paring videotape brands—page 15

DRUG STORE NEWS®

Vol. 9/No. 1 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. January 5, 1987

Rite Aid bursts into Fla. with 187 units

Also acquires 200,000-sq.-ft. SupeRx warehouse

By Dave Vaczek

SHIREMANSTOWN, Pa. — Rite Aid has entered Florida with a flourish by buying 187 SupeRx and Gray Drug stores from Kroger and Sherwin-Williams.

With the acquisition of 106 SupeRx stores and 81 Gray Drug units, Rite Aid suddenly commands an established position in the high-growth markets of Broward, Palm Beach and Dade counties in the Southeast, in the Gulf Coast Tampa-St. Petersburg market and in Orlando.

In expanding its arena for planned southeastern growth—which had been confined to the Carolinas, Tennessee and Georgia—Rite Aid becomes the second largest drug chain in terms of stores, with 1,680 units, surpassing Jack Eckerd Corp., with 1,618 stores. The buy will boost annual sales by $250 million, to over $1.7 billion.

Scored coup

Florida retail sources said that Rite Aid scored a coup in paying a total of $110 million. The deal includes not only the Florida units, but also 22 Drug

See **Rite Aid,** *page 33*

Bellini group gets 358 units

CLEVELAND — With the sale of 103 Gray Drug Fair stores to Rite Aid, Sherwin-Williams simultaneously announced it is selling the remainder of its Gray Drug chain to president Carl Bellini in a leveraged buyout.

A Bellini-led management group will buy 358 stores, beating out a bid by former Gray Drug president Al Towle. Sources said Bellini's closer ties to management tipped the sale in his favor.

Revco president William Edwards, left, chairman Sidney Dworkin.

Shareholders O.K. Revco $1.25B LBO

TWINSBURG, Ohio — A management-led investor group took control of Revco D.S., after shareholders owning 76% of shares approved a $1.25 billion leveraged buyout.

Owners of 19.6 million shares of 25.8 million represented at the chain's Dec. 16 annual meeting approved a merger of Revco with Anac Merger Corp., a subsidiary of Anac Holding Corp., which was formed to take the 2,069-store chain private.

Thirty-five Revco employees; Transcontinental Services Group, a Netherlands Co.; Salomon Brothers, the investment bank; Golenberg Co. of Cleveland; and other investors paid $38.50 a share. Revco shares closed at $37.50 the day of the deal.

Beats deadline

The buyout, first announced in March, beat a year-end deadline to preserve tax benefits phased out in 1987. The Revco Board of Directors

See ***Revco,*** *page 33*

Melville names chairman, ceo

HARRISON, N.Y. — Stanley P. Goldstein, who oversaw the growth of CVS from a single Lowell, Mass., discount H&BA store in 1963 to a powerhouse in the chain drug industry, has been named chairman and ceo of the Melville Corp., CVS's parent. Goldstein, 52, succeeds Francis C. Rooney Jr., 65, who is retiring.

Goldstein, who had been president of CVS before joining the parent company as executive vp and director in 1984, was named president and coo of Melville in 1985.

Melville is one of the nation's leading specialty retailers with more than $5 billion in sales from its drug store, apparel, footwear, toy and home furnishings operations.

Stanley P. Goldstein

Addresses operational, image problems

Dart sets recovery course

By Al Heller

LANDOVER, Md. — The recasting of Dart Drug is in full swing—and none too soon to raise the 80-store chain out of the red, where it's been since its massive debt restructure last spring.

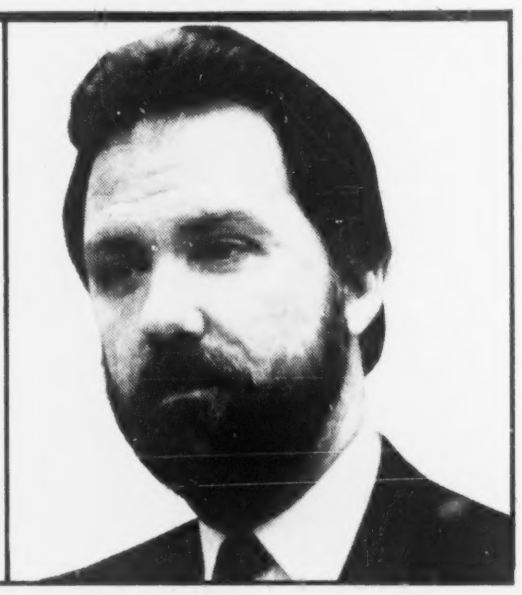
An intensive media blitz is the most visible part of Dart's attempted remake. From mid-November to the end of January, Dart is airing 30-second institutional spots 20 times a day, seven days a week over five television stations covering the D.C. market. Dart also ran full-page image ads in the *Washington Post* that discuss customer policy changes, to help kick off the campaign.

At store level, customers are more likely now to bump into headquarters executives wearing name badges who want to talk with them, and should also experience cleaner stores, faster checkouts, easier walkthroughs and better out-of-stock and return policies.

21 task forces

The road will be a long one for Dart, given its onerous reputation from the past that still haunts them. But chairman and ceo Stephen J. Hansbrough has applied shock therapy to the chain from top to bottom, placing staffers from all levels on 21 separate task forces to find solutions for operational and image problems.

> *'We're meeting our responsibilities as prudent businessmen. We're retooling and repositioning our company to be successful.'*
> **—Stephen J. Hansbrough**
> chairman and ceo
> Dart Drug



The ads are at once a public confession that Dart wronged customers in the past and an attempt to expand its shopper base. Hansbrough told *Drug Store News* that months of consumer and employee sur-

See ***Dart,*** *page 33*

Hook-SupeRx clinches deal to buy Kroger units

CINCINNATI — Hook-SupeRx used bank loans, high risk bonds and investor equity to buy 662 stores from Kroger for $415 million.

The buyout group—led by former Seagrams executive Philip Beekman—completed the deal on Dec. 9 and created a new Midwest drug store company.

About 44 members of chain management are equity investors along with Kroger and Goldman Sachs, the investment banking firm that arranged the leveraged buyout. Equity input accounts for $30 million, with Kroger and GS each owning a 37% share, according to sources close to the sale.

Bank loans account for $260 million, with an additional $30 million set aside for a credit line. The remainder of the cost—$125 million—will be raised by placement of subordinated notes paying 13% interest that will be sold by GS.

"It was very, very oversubscribed. The banks came in for much larger amounts than we wanted to give them. And every bank that saw the deal wanted to come in," said Edward Crook, vp at Chase Manhattan Bank, the lead bank. Chase loaned $75 million.

Upbeat view

The banks had an upbeat view of the management team, the drug stores' potential and the debt structuring. They were also heartened because of the large investments by Kroger and Goldman

See ***Hook-SupeRx,*** *page 33*

NEWS IN BRIEF

Alco does Christmas shopping

VALLEY FORGE, Pa. — Alco Health Services, which has grown rapidly through acquisition this year, has agreed in principle to buy two wholesalers in all-cash deals that were expected to be concluded by Jan. 1.

Archer Drug ($35 million annual sales) of Little Rock, Ark., and Michiana Merchandising Systems ($20 million annual sales) of Mishawaka, Ind., would become the sixth and seventh takeovers for Alco since it went public in August 1985. Both distribute pharmaceuticals, health & beauty aids and sundries: Michiana also distributes general merchandise.

The Archer deal is subject to final approval by both boards of distributors.

Perry bags 2 Owls in Mich.

PONTIAC, Mich. — Perry Drug Stores has acquired two former Owl drug stores in Drayton Plains and Keego Harbor, Mich. The locations are 13,500 sq. ft. and 7,500 sq. ft., respectively, and will operate as Perry stores, the chain said.

Fred Meyer sells NW sites to Met Life

PORTLAND, Ore.—Fred Meyer Real Estate Properties, which leases stores to Fred Meyer, has sold 35 store sites and one distribution center site to Metropolitan Life Insurance for more than $400 million.

Nearly five million square feet of retail space went in the deal, including stores in Oregon, Washington, Alaska, Idaho and Montana, and a 1.5 million sq. ft. DC in Clackamas, Ore.

Met Life now owns both land and buildings. The properties will remain leased to Fred Meyer, which will have the option to buy after the initial 20-year term, Met Life announced.

Paz leaves Longs to become importer

WALNUT CREEK, Calif. — Phil Paz has resigned his post as vp-merchandising at Longs Drug Stores in order to launch his own importing business. The veteran merchandising executive said that his company plans to import primarily general merchandise from the Orient and sell to wholesalers, distributors and retailers.

"It was a good opportunity," Paz told *Drug Store News*. "The timing was right and I was ready to make a change."

At presstime, Longs had not announced any replacement.

OTC sale of glasses OK'd in Mass.

Massachusetts became the latest state to allow over-the-counter sales of reading glasses after a three-year lobbying effort by chain drug representatives and the reading glass industry.

The legislature said the glasses can be sold starting Jan. 15, providing that displays are labeled with a sign that tells customers reading glasses aren't a substitute for prescription lenses and that only a professional can determine eye care needs.

Magnavision (formerly Alsite Corp.), the Massachusetts Chain Drug Store Council and top Rix Dunnington officers led the lobbying offensive against the state Society of Optometrists, who argued such sales would prevent needed eye exams.

INDEX

Beauty Beat 13
C.E. Lesson 27
Editorial 6
Financial 34
Industry Forecast 10
Inside Pharmacy 23
Merchandising Trends 15
Rx/OTC Product Update 32

Drug Store News (ISSN 0191-7587), is published biweekly—every other Monday, monthly in December plus extra Pharmacist's Reference issue in April, as well as an extra Annual Pharmacists Guide to OTC Patient Counseling in October, by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscription rates: Infield subscribers, retailers and wholesalers, one year $19.50; two years $35. Out-of-field subscribers, manufacturers, schools, libraries and all others, one year $39. Single copy rate $2. Foreign subscriptions: Airmail only $125 per year.

Second-class postage paid at New York, N.Y. and additional mailing offices. Copyright © 1987 by Lebhar-Friedman Inc. All rights reserved. POSTMASTER: Please send address changes to Subscription Dept., Drug Store News, 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079. For change of address six weeks notice to Subscription Dept., 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079 is requested. Give old and new address and zip code. If possible, enclose address portion from cover on previous issue.

Vol. 9, No. 1 January 5, 1987

Perry draws fiscal plans to lift sagging bottom line

PONTIAC, Mich. — Perry will clamp expenses that drained its 1986 earnings.

The chain will replace employee liability and health insurance plans, has restructured some debt and has set cost control policies, after year-end earnings dove 39%.

Earnings for fiscal 1986 ended Oct. 31 dropped to $5.9 million, or 59¢ a share, from 1985's $9.6 million, or 97¢ a share. Fourth-quarter profits came in at 87% less than the comparable 1985 quarter. Final quarter earnings were $315,000, or 3¢ a share, against $2.4 million, or 24¢ a share, last year, the chain said.

But sales continued a chart-busting course. They hit $648 million, up 24% from 1985's $521.6 million, following fourth-quarter sales of $173 million, 19% higher than 1985's $145 million.

Drug stores performed

Auto parts same-store sales and earnings faltered, but a solid drug store performance supported corporatewide same-store sales growth of 7%, compared with the 4% growth Perry posted from 1984 to 1985.

"Our business fundamentals remain strong," said Jack Robinson, Perry's chairman and ceo. "Sales set records, seasoned stores performed well, gross profit margins were stable, and market share increased," said Robinson.

Perry Drug corporate sales, earnings and store totals in the last three years
(Sales and earnings in $ millions)

Sales	**1984**	**1985**	**1986***
	$371.9	$521.6	$648
Earnings	**1984**	**1985**	**1986**
	$7.6	$9.6	$5.9
Stores	**1984**	**1985**	**1986**
Drug	146	191	210
Auto parts	110	176	230
Home health care	2	5	5

Fiscal year ended Oct. 31.
Source: Perry Drug

A Perry spokesman said that some of the same factors that triggered the earnings slide in the third quarter continue to disrupt profits. Earnings are being hit by "dramatic" cost increases in employee health insurance and by rising debt service costs. Interest expenses for the year were about $10 million, compared with 1985's $6.2 million. The chain has borrowed widely in the last two years to support an aggressive acquisitions program in drug and auto parts stores.

Fourth-quarter earnings were also affected by the loss of tax credits for 1986 capital investments. It equals a loss of 8¢ a share.

Insurance program costs

Perry suffered from heavy costs of a "cafeteria-style" health insurance plan that allows employees to tailor their own programs. The result was some expensive programs. Besides reviewing the insurance programs, the chain has set cost control measures, including a hiring freeze and restrictions on travel and entertainment.

Interest expenses should subside in 1987 because of some debt restructuring, according to Berl Falbaum, vp-corporate communications.

Perry's plan to relocate and consolidate corporate offices in downtown Pontiac also promises savings, as offices are now scattered among five locations, creating higher administrative costs.

Although sales for the auto parts division are up 14% for the year to $145 million, compared with $125 million in 1985, sales were boosted by the opening of 57 new stores.

Fox ends 27-year tie with firm

Donald Fox
Perry Drug president and coo

PONTIAC, Mich. — Donald Fox, Perry Drug's president and coo, said he is leaving Perry to pursue personal and business interests.

"I felt after 27 years that it was time to do something else and perhaps in a different place," said Fox, 53. "Right now, we're still keeping all our options open."

Fox said he is considering the pursuit of business opportunities in Chicago, where he and his wife, Nancy, would like to move to be closer to one of their three children. The resignation is effective Jan. 12.

The departure breaks up a partnership with Perry chairman and ceo Jack Robinson that began shortly after Robinson founded the chain in 1959. Fox joined as a part-time pharmacist, when Perry had two stores. The chain has since grown to 210 stores and diversified into auto parts and home health care.

Earnings dropped

While sales and earnings have climbed steadily year to year, Perry year-end income slid for the first time in the 1986 fiscal year ended Oct. 31. The company pointed to higher costs from employee health care benefits, costs stemming from its strong 1985 acquisition program and the loss of investment tax credits under the new tax law. Earnings are down 39% from 1985.

Fox had been mulling a move in recent years, according to a Perry executive. "This is nothing new. He's been talking about this for three to five years," said one source.

Fox will continue to serve on the Board of Directors, and Robinson will take on Fox's duties. A search committee has been formed.

'Fruitful relationship'

"I fully understand Don's position. We have had a long and fruitful relationship, and I will miss his business counsel and advice," said Robinson.

"He greatly contributed to Perry's growth and its position as a leader in the industry . . . ," said Robinson.

Fox became a partner in Perry's second store in 1960. He was elected an executive vp when Perry went public in 1973 and was named to his current post in 1980.

Coutu opens 100th store

ST. HENRI, Quebec — The Jean Coutu Group opened its 100th store Dec. 17 in this blue-collar suburb of Montreal with a fresh approach to prescription sales.

The store's physical format is unusual because the wholly owned property is slanted: It's half basement, half upper floor with an escalator, chairman Jean Coutu told *Drug Store News*.

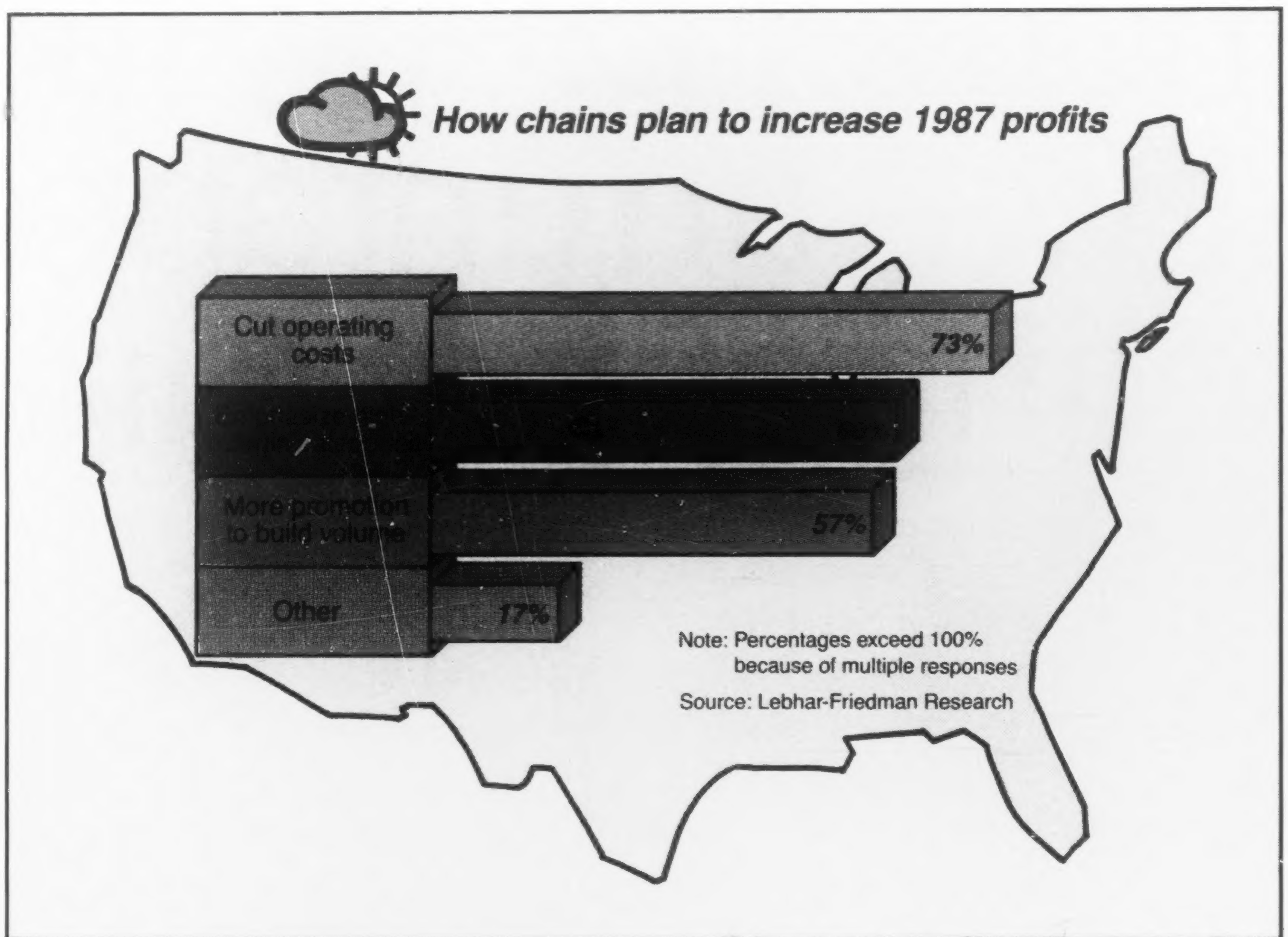
Its pharmacy operation is the true innovation here. There is space for a dental and medical clinic next to the prescription department that will be occupied soon by outside medical professionals who will pay straight rental. These private professional offices will be open 15 hours a day.

"They add traffic to the store, and we can direct a lot of customers' medical questions their way. It's also a natural environment for doctors and dentists, who add to our prescription sales," Coutu said. "It's good for both sides."

He explained that the Jean Coutu Group has similar medical and dental setups in two other stores, in Mount Royale and Verdun, another suburb of Montreal. Prescriptions filled in those stores exceed by 20%-25% the chainwide average of 270 scripts per day per store, he said.

SPECIAL REPORT
TRENDS

'87 Industry Forecast: Partial clearing for sales, profits



Note: Percentages exceed 100% because of multiple responses

Source: Lebhar-Friedman Research

Drug store executives are predicting an improved sales and profit performance for 1987, according to *Drug Store News*' third annual Industry Forecast Survey.

The survey, which was carried out in November, is in contrast to a similar study done last year, which indicated strong retailer concerns about the economy, consumer confidence and sharpened competition.

While concerns were still evident, the executives interviewed by telephone for the 1987 forecast study were more upbeat about their ability to increase sales through greater promotion and to improve their operating profit margins by cutting operating costs and emphasizing higher margin categories.

Invest in stores

In addition, the executives anticipate that they will be able to use part of the net gain from the new tax code to add more stores, either by building from the ground up or through acquisition.

That, in turn, will help to fuel an overall sales gain, which executives predicted would average 10.3% for the year.

The executives also intend to balance their investment in new store growth with remodeling programs and with the installation of new or additional technology such as computers and POS scanning registers.

Moreover, an overwhelming majority of the executives (87%) felt that their same-store sales would also increase, a strong indication of their confidence during a period of relatively small inflationary gains. Only 13% of the respondents predicted no growth in same-store sales, and no one foresaw a decrease.

Top execs polled

These were among the findings from a survey of top executives (chairmen, presidents and chief financial officers) of 30 drug chains representing more than 4,000 stores and almost $7 billion in sales.

The telephone survey was carried out by Lebhar-Friedman Research during the week of Nov. 10-18, 1986.

In addition to expected performance gains, the executives also focused on the 1987 competitive arena. The sharpest rivalry is expected to come from food and drug combo operators, followed closely by deep discounters and conventional supermarkets.

Less important as retail rivals will be the discount department stores, according to the respondents, who also felt that there would be almost no competitive heat from one of the country's fastest growing retail segments, the membership warehouse clubs.

Implicit in their responses is a confidence in the drug stores' ability to weather competitive storms through their convenient locations and professional health care image.

Forecast breakdown

The following are some of the individual highlights of the forecast study.

- In order to increase 1987 profits, almost three-quarters of the respondents (73%) expect to shave operating costs. Two out of three plan to emphasize more high-margin categories, while more than half (57%) expect to increase volume and traffic (and thus generate more profit dollars) through increased promotional activity.
- The chains plan a broad array of uses for the gains they anticipate from the lower 1987 corporate tax rate. More than a third of the respondents (37%) say they will use the extra revenues for store acquisition purposes, while 33% say they will build new stores. One-third of the chains expect to use the money for remodeling stores, and a third will add new technological equipment.

Not mentioned was the possibility of using the money to cut prices in order to meet competitive threats.

- The average same-store sales gain predicted by survey respondents was a strong 7.4%.
- Forty per cent of the respondents expect food and drug combination stores to be their major competition in 1987. Almost one-quarter (23%) mentioned deep discounters and another 23% cited supermarkets. Only 13% mentioned discount department stores like K mart and Wal-Mart as their major competition.
- In assessing the impact of the various competitive segments on chain drug sales, roughly 3 out of 10 respondents predicted a "substantial impact" from both deep discounters and food/drug combos. Thirty-seven per cent anticipated a moderate competitive impact from the two retail segments.
- Forty-three per cent of the respondents expect consumers to spend more money on drug store merchandise, while 57% expect consumers to spend about the same.

How drug chains will spend 1987 tax savings

Acquire stores	37%
Build new stores	33
Remodel stores	33
Install new technological equipment	33
Add to distribution center space	17
Nothing	10

Note: Percentages exceed 100% because of multiple responses

Source: Lebhar-Friedman Research

Chains predict toughest competitors in 1987

Type of outlet	%*
Food/drug combination stores	40%
Deep discount stores	23
Supermarkets	23
Discount department stores	13

*Percentage of respondents selecting various outlets as major rivals

Source: Lebhar-Friedman Research

Expected impact of various competitive types

Type of outlet	Heavy impact	Moderate impact	Little impact	No impact
Deep discounters	30%	37%	27%	7%
Food/drug combos	27	37	30	7
Supermarkets	20	30	37	13
Discount stores	13	20	30	37
Warehouse clubs	3	7	37	53

Percentages indicate portion of respondents selecting impact levels of various store types

Source: Lebhar-Friedman Research

Legislative climate shifting on Rx issues

With controversial drug diversion legislation on the move in Congress and bedrock changes in Medicaid Rx reimbursement under study by Federal regulators, 1987 is shaping up as a watershed year in Washington for the drug store industry.

But for many chain and independent pharmacies, the top concern this year may well be the flurry of labor and payroll-related initiatives expected to surface on Capitol Hill during the coming months.

With the Democrats now in control of both houses of Congress, officials at the National Association of Chain Drug Stores are bracing for a major new drive to boost the national minimum wage rate.

Possible 'ripple effect'

According to NACDS, organized labor is already mapping plans to boost the current $3.35 hourly pay floor to $4 or more—a hike that could cause an inflationary "ripple effect" on the salary structures in retailing and other labor-intensive industries.

There's also concern that the new, more liberal 100th Congress will give serious consideration to separate proposals mandating employer-paid fringe benefits for workers.

Among the schemes certain to emerge this year: legislation requiring many employers to pay health insurance premiums for ex-employees (or their dependents), and a controversial "paternal leave" bill obliging firms to rehire workers who take time off to care for newborn (or newly adopted) children.

Polygraph issue to recur

Legislation outlawing employee polygraph testing—a plan opposed by NACDS and the National Association of Retail Druggists but supported by the American Pharmaceutical Association—is also a sure bet to resurface in '87. A key question for the drug store industry is whether Congress will agree to an exemption allowing lie detector testing of workers with access to controlled substances.

Continued on page 11

Diversion, liability to resurface in Congress

Continued from page 10

The right of employees to require workers to submit to drug testing also figures to come under debate on Capitol Hill this year, along with a number of other employee "rights" issues.

Among rights questions likely to stir the most heated controversy: a revival of the dialogue over "comparable worth" (i.e., equal pay for different but "comparable" jobs) and the question of whether individuals with AIDS, herpes and other communicable diseases are protected from job discrimination by Federal rules banning employment bias against the handicapped.

Overtime pay question

On the regulatory front, look for the Labor Department to unveil proposals to change current ground rules governing overtime pay requirements for low-salaried managerial workers.

Current department rules generally require premium (i.e., time-and-a-half) wages for all hours worked in excess of 40 per week. But "executives" such as store managers, assistant managers and other supervisory personnel are exempt from this requirement if they perform certain managerial duties *and* earn a base weekly salary of at least $155.

Legislation outlawing employee polygraph testing . . . is a sure bet to resurface in '87.

The department's proposal—scheduled to be released early this year—is expected to raise the minimum weekly salary threshold for exempt managers, but relax the "duties test" in order to make it easier to qualify employees for the overtime pay exemption.

The courts are expected to handle a rash of employment-related disputes during 1987, many of them focusing on the touchy issue of sexual harassment.

Sexual harassment

The courts are also expected to handle a rash of employment-related disputes during 1987, many of them focusing on the touchy issue of sexual harassment in the workplace. Late last year, the Supreme Court ruled that employers are legally obligated to provide workers with a nonsexually threatening work environment—a decision certain to touch off much litigation by employees claiming to have been victimized.

Not all of the action in Washington this year will focus on labor issues, of course. Liability reform legislation will again emerge as a priority agenda item on Capitol Hill, and drug store industry-opposed "beer bill" legislation eliminating price competition among malt beverage distributors will come under consideration early in the new session.

Rep. John Dingell (D-Mich.), who chaired a marathon series of House hearings into prescription drug diversion, will be reintroducing legislation in 1987 to deal with these activities.

Last year, Dingell advanced an omnibus antidiversion bill endorsed by most national pharmacy groups, but that legislation died at the close of the 99th Congress because of opposition from pharmaceutical manufacturers. The bill's fate in 1987 may hinge on whether Dingell and the Pharmaceutical Manufacturers Association can strike a compromise on the sensitive issue of drug sampling.

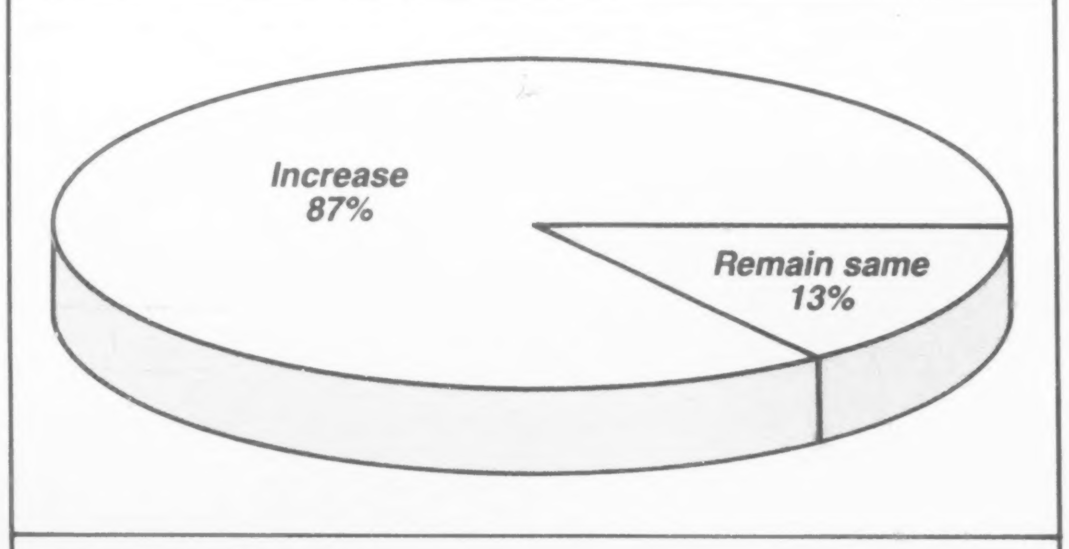
Meanwhile, in the regulatory arena:

- The Food and Drug Administration will be implementing the final stages of its Action Plan to streamline drug approvals, moving to resolve bioequivalency issues associated with generic drug approvals and developing new tamper-resistant packaging requirements for OTC products.

Rep. John Dingell, who chaired a marathon series of House hearings into prescription drug diversion, will be reintroducing legislation in 1987 to deal with these activities.

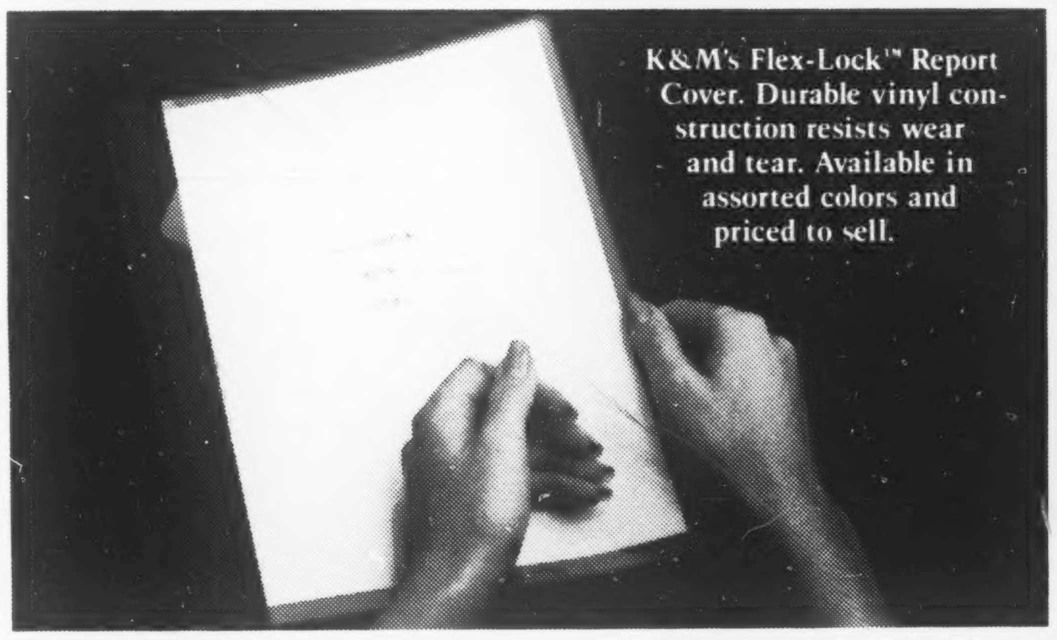
- The Customs Service, the International Trade Commission and the Federal Trade Commission will continue their three-way tug-of-war with Congress and the courts over the legality of gray market imports.
- Federal antitrusters may launch a drive to repeal the Robinson-Patman antiprice discrimination law and will reconsider current "Fred Meyer" co-op advertising guidelines requiring manufacturers to make such promotional assistance available to all retailers on a proportionately equal basis.
- The Health Care Financing Administration will finish sifting through comments on its proposals to streamline Medicaid drug reimbursement and announce whether it will seek to revise the current MAC/EAC system or replace it entirely with radical new approaches such as CIP or PhIP.

How chains project 1987 same-store sales



Source: Lebhar-Friedman Research

K&M HAS THE WINNING TEAM

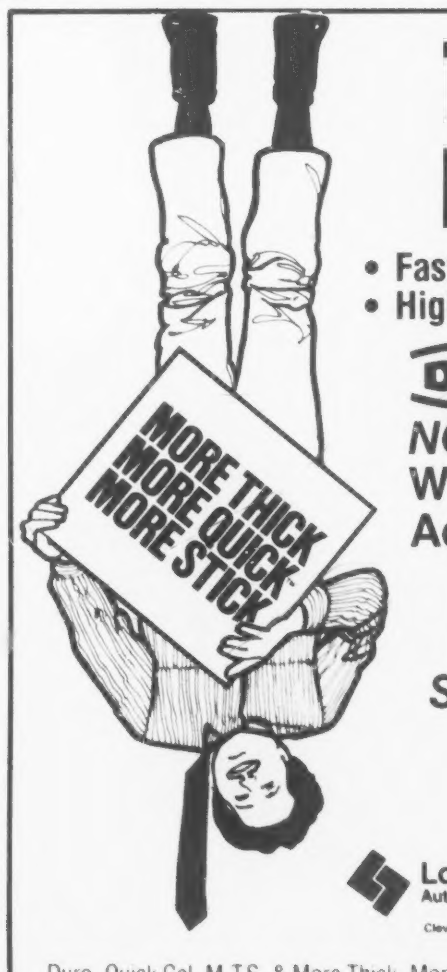


K&M's Flex-Lock™ Report Cover. Durable vinyl construction resists wear and tear. Available in assorted colors and priced to sell.

The most complete line-up of sales building products for Back-To-School and Home/Office.

K&M Company
KINGSBACHER-MURPHY COMPANY

THE DURO™ DIFFERENCE



- Faster turns
- Higher repeat sales
- Greater profits per square foot

DURO QUICK GEL™
NO-RUN SUPER GLUE
With M.T.S.™ Additive

There's no other Super Glue like it!

DURO
QUICK GEL
NO-RUN SUPER GLUE
MORE THICK
MORE QUICK
MORE STICK
M.T.S.
SGG-1

Loctite Corporation
Automotive and Consumer Group
Cleveland, Ohio 44128

Duro, Quick Gel, M.T.S. & More Thick, More Quick, More Stick are TMs of Loctite Corporation © 1986

January Deal: **1 Free W/11** Off-Invoice from major wholesalers or Campbell
HERPECIN-L®
Cold Sore Lip Balm. *"It Works!"*
**Write: CAMPBELL LABORATORIES, INC.
P.O. Box 812-A, FDR, NY, NY 10150**

Coming Attraction

OVER THE TOP
AS SEEN IN THE MOVIE...
with Bonneau and Stallone!

bonneau®
THE SUNGLASS PROFESSIONALS

Photographer: Dave Friedman